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DEMOCRACY *against* UNEMPLOYMENT

*An Analysis of the Major Problem
of Postwar Planning*

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DEMOCRACY AGAINST UNEMPLOYMENT

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PREFACE



THIS book is designed for the general reader rather than for the student of economics. Perhaps this is another way of saying that it is concerned with public policy rather than with economic theory. In the broad field of political economy it emphasizes policy rather than analysis. It is frankly an expression of point of view, a "participating" discussion of political and economic programs more than a detached analysis of "what goes on" for the benefit of the interested student observer. It is so because the author is convinced of two things—first, that important policy decisions affecting our economic and political life must be made within the next few months and years, and, secondly, that these decisions will be made, not by economists in academic convocation, but by the leaders of business, of labor, and of political life—reacting to the common-sense convictions of the majority of the people, who are the rulers of a democracy.

There is a growing recognition that, in addition to concentration on the present urgencies of all-out war, it is not too early to tackle the problems of post-war readjustment, chief of which is generally conceded to be the unemployment of capable man power.

Why is it that observers of the current scene almost invariably mention unemployment as the central problem when the internal dangers to our present social order are considered? It is probably because unemployment is the particular

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failure in the system which affects the largest number of people and creates the greatest amount of unjustifiable suffering both physical and mental. At the same time unemployment is a symptom of economic unbalance in capitalistic economy, an unbalance so severe as to threaten the equilibrium of the entire system. Here is a challenging problem which must be solved if our society is to survive.

Ten years in public life have convinced the author that the man on the street has a practical grasp of the essential factors involved in most important public questions, in spite of the fact (or perhaps because of the fact!) that he cannot understand the learned jargon of the professional economist.

Accordingly the viewpoints and authorities cited will frequently be chosen from leaders in industry, in public life, and in journalism, with an occasional economist to lend the proper tone of abstruse respectability to the discussion.

While it is not possible to identify the source of all the ideas one secures from the writings or the conversations of his colleagues, an effort has been made in this book to acknowledge the contributions of certain authors by occasional quotations.

Mr. Werner Hochwald and Miss Deloris Coy have been of great assistance in reviewing details of the manuscript, and Mr. Hochwald has contributed several suggestions which have been incorporated. The author's wife, Lillian A. Stead, offered valuable criticism of the book from the point of view of its appeal to the general reader, and Virginia Lynott Seifert ably discharged the secretarial duties connected with the preparation of the manuscript. Special acknowledgment is due the editors of the *American Sociological Review* for permission to republish the material in Chapter XVI, much of which appeared as an article in that journal. Similarly the Russell Sage Foundation has accorded permission to in-

P R E F A C E

clude in the first part of Chapter IX a portion of an article on the history of "Employment Services" originally appearing in the 1941 *Social Work Year Book*.

It is doubtless superfluous to add that the facts and viewpoints herein set forth are not original or new. It is merely hoped that this particular reshuffling of them will focus attention on a problem of major significance and thus aid the average man and woman in reaching one of the common-sense decisions which make democracy work.

WILLIAM H. STEAD

St. Louis, Missouri
July, 1942

PART I

THE CAUSES OF UNEMPLOYMENT

CHAPTER I

UNEMPLOYMENT—THE GREATEST ENEMY OF DEMOCRACY

WITH his great facility for expressing the aspirations of the common man, President Roosevelt has recently centered the hopes of democratic peoples on the attainment of the four freedoms. While we Americans may count ourselves fortunate that our political democracy has assured us freedom of expression and freedom of religion, we join the rest of humanity in our need to secure freedom from fear through stable world relationships and freedom from want through improvements in the economic order.

This war is being fought primarily to secure that international stability which means freedom from fear. The war may be lost in the final analysis, however, unless we can adjust our ways of making a living so that mankind is given greater assurance of "freedom from want."

In a time when the American people are more concerned with the future of democracy than in any other period since the Civil War and perhaps since the Revolution, there is, strangely, no clear identification of the chief danger threatening that democratic future.

Everyone senses certain dangers within our own system and certain external threats, but we differ in our beliefs as to which is the greater threat. Since the actual declaration of war, earlier arguments between "isolationists" and "interventionists" have given way to a universal conviction that totali-

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tarian dictatorships, particularly Hitler's brand, endanger the very existence of democracy and every effort must be made to destroy these encircling enemies. Few, however, would challenge the statement that, once dictatorship is smashed, democracy must do a better job of putting its own house in order if future catastrophe is to be avoided.

While conceding the external dangers, it is entirely in order to focus attention on the need to counter the internal threats to our economic and social system if we are to avoid dictatorship, which feeds on economic unrest and dissatisfaction. Indeed, it can be argued with reason that the internal enemy—unemployment—constitutes a greater long-run danger to democracy than Hitler and his “new order.”

Democracy rallies to defend itself against external aggression, and the very effort and unity necessary to crush such attacks in turn contribute to the strength of democracy. Few can observe either the United States of America or the British Commonwealth of Nations under fire and fail to see a growth of democratic forces in these great nations.

Continuing unemployment, on the other hand, creates frictions and tensions within a democracy. It divides rather than unites and it produces a sense of futility, of resignation, rather than a will to resist.

Each new and unexpected turn in the war brings further conviction that the revolutionary character of this world upheaval makes it imperative that we tackle immediately the problem of balancing up our own economic democracy if we would weather the storm.

Thus one newspaper columnist,¹ expressing a viewpoint echoed by many others, made this pertinent comment at the time public opinion was trying to orient itself with the outbreak of the Russo-German war:

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Many in the west would like to see Germany lose without suffering the ultimate cost of losing; and would like to see Russia win without garnering the fruits of victory. This is a gamble that in the future the moon will be made of green cheese.

This truly climactic moment, this day of the trembling of worlds, actually calls on the west to initiate the greatest offensive in history toward the solution of its own economic and social problems, and thereby to give up hoping that both Stalin and Hitler will break mirrors and walk under ladders on the same day.

If it could be officially announced, as a solemn American legislative determination that the unemployment problem in this country had been reduced to an anachronism; that we had made up our minds, regardless of cost (and in fear of the ultimate cost of failure) to provide a job for every worker, now and forever, then we would be free, without fear, to help Russia in a manner almost impossible today. We would be laying aside childish things, and offering our own bid to the future. We would say: "This is the way it is going to be," and armed against the night with a shield of better than metal, we could quite freely pursue our foreign policy. Our only safeguards today against ideological infiltrations are our own crossed fingers. No wonder we feel naked, and live much in dreams.

It is important to remember that unemployment of men is always paralleled by idle capital and unused productive resources of all kinds. In other words, when there are idle men, there are idle machines; when labor's income declines due to unemployment, management's share is reduced and the owners of property likewise lose ground. All of these losses reflect the basic fact of failure to use available productive capacity—material and human.

There are, of course, instances of unemployment attributable to human failures and perversities. Some individuals are out of a job due to their own incapacities, temperaments, or personal failures. Others may be the victims of unfair or unwise management policies, of union hiring restrictions, or of exploitation on the part of those who control the property interests in the industrial system.

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Without minimizing the extent of unemployment due to these human frailties, which might be present under any economic system, it may be said that the elimination of these personal factors would still leave the problem of unemployment as a basic threat to our present order. And, indeed, it is well that such is the case! For should the solution of the problem of unemployment rest on the possibilities of rapid reform in human behavior, who could be optimistic of the future?

If, on the other hand, there are aspects of the operation of our present scheme of economic arrangements which are in themselves responsible for this failure to use available resources of men and machines, then perhaps something can be done about it. Human behavior improves very slowly; human institutions change frequently and rapidly. It is comforting sometimes to realize that what we call capitalism as a system of economic arrangements is actually less than two hundred years old, out of a recorded human history of five thousand years. Small wonder, then, that such a brief experiment has revealed a few major flaws along with a remarkable record of accomplishment.

If one is frightened by the necessity of critically analyzing our economic system and considering some important changes to bring it back on the track of progress, let him contemplate what has happened in the century and a half since the industrial revolution. If we take any fifty-year period since this country was founded, we find that economic proposals which were generally branded as radical, socialistic, and destructive at the beginning of that fifty-year period were accepted as commonplace and as steps in an evolutionary progress by the end of the period.

Moreover, the changes which were proposed sometimes

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threatened to disrupt the entire existing scheme of things. When Jefferson proposed universal manhood suffrage and publicly supported education as the means of protecting the economic status of the common man, he was running counter to established beliefs and arrangements and he was roundly denounced as impractical and a destroyer of the very basis of an orderly society.

Lincoln faced the necessity of supporting a move which meant an economic revolution in the lives of a huge section of the population, a move so strongly resisted that Civil War was necessary to achieve it.

Yet who doubts the relative value of the contributions to present American life made by these radical readjustments in the early pattern of our national life?

Today we face another major crisis in our national life, an economic crisis, and if we are capable of meeting this crisis with constructive action (as we are) it is because of the strength of our political democracy, which has demonstrated under such leadership as Jefferson's and Lincoln's that necessary changes in economic and social institutions can be made in spite of opposition from the economic "powers that be."

It is suggested that three practical tests of the working effectiveness of an economic system are, first, the degree to which the system encourages the development of productive capacity to satisfy human wants, secondly, the degree to which such productive capacity is utilized, and, finally, the equity with which the benefits of such production are distributed to meet human needs and desires.

Let us try to measure our system of private competitive capitalism in these three respects.

On the first count the system gets an A rating. No alterna-

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tive economic arrangement, either precedent or concurrent, has remotely approached capitalism in its actual or potential achievements in developing productive capacity. The amazing industrial developments of the last one hundred and fifty years have made possible a tremendous improvement in the standard of living of the average human being. No chapter in human history records more progress in providing potential satisfactions than the productive advances under capitalistic economy.

No single measure can adequately reflect these enormous gains; but at least some conception of the rate of progress may be secured by a glance at Chart I, representing total production in the United States during 1863-1941.

The most encouraging part of this picture is that success in meeting this first test—namely, developing productive capacity—is of the greatest importance.

No matter how well an economic system may meet the second and third tests, it cannot succeed unless it passes the first. Most alternative arrangements which have been proposed have concentrated on improvements in the second and third areas, particularly the matter of better distribution of the benefits of production, and have failed to offer prospects of improvement or even prospects of equally effective performance in developing productive capacity. There is little gain for the human race in a more equitable distribution of the results of declining production.

In properly evaluating this area of achievement, however, we must recognize that concurrently with an expanding and creative producing economy we have gradually been limiting both the “private” and the “competitive” aspects of our so-called private competitive economy.

Within the economic structure itself, combinations and

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monopolies of varying types have been steadily encroaching on competition until there is real question whether the typical pattern is that of competition.² Moreover, social controls over

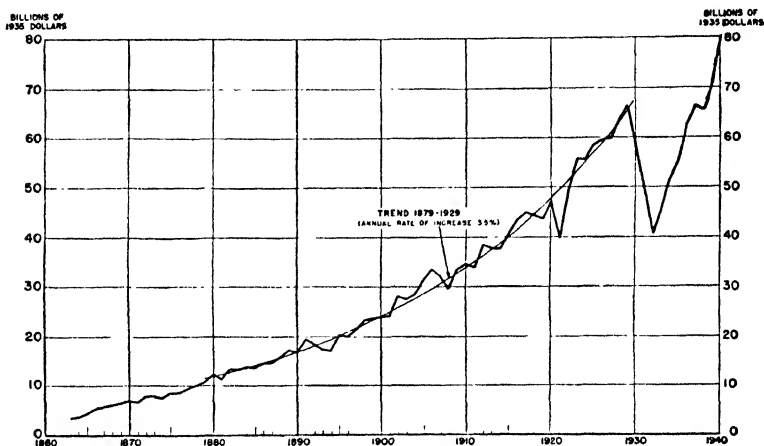


CHART I

Total Production in the United States, 1863-1941

Sources: Data for years 1863-1937, *The Structure of the American Economy*, Part I, "Basic Characteristics," National Resources Committee, June, 1939, p. 60. Survey for years 1938-1941 based on data from Department of Commerce, *Survey of Current Business*, May, 1942, p. 12. The figures for national income were converted to "1935 dollars" using method of the National Resources Committee as follows:

Year	National Income	Wholesale Price Index	Real Production
1935	55.7	100	56
1936	64.9	101	64
1937	71.5	108	66
1938	64.2	98	65
1939	70.9	96.5	73
1940	77.3	98	79
1941	94.7	112.5	84

private enterprise have progressively increased, accelerating in recent years. Indeed, the majority of the people have so frequently resorted to political action to secure economic controls and arrangements they could not secure directly through

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the economic system that one astute observer reaches the conclusion that the capitalistic economic system is in fundamental conflict with political democracy.⁸

His conclusion is based on his belief that in capitalist economy power is vested in the few who control property rights while in political democracy control rests with the majority of the population, whose economic interests are frequently if not always in conflict with those of the few exercising economic control.

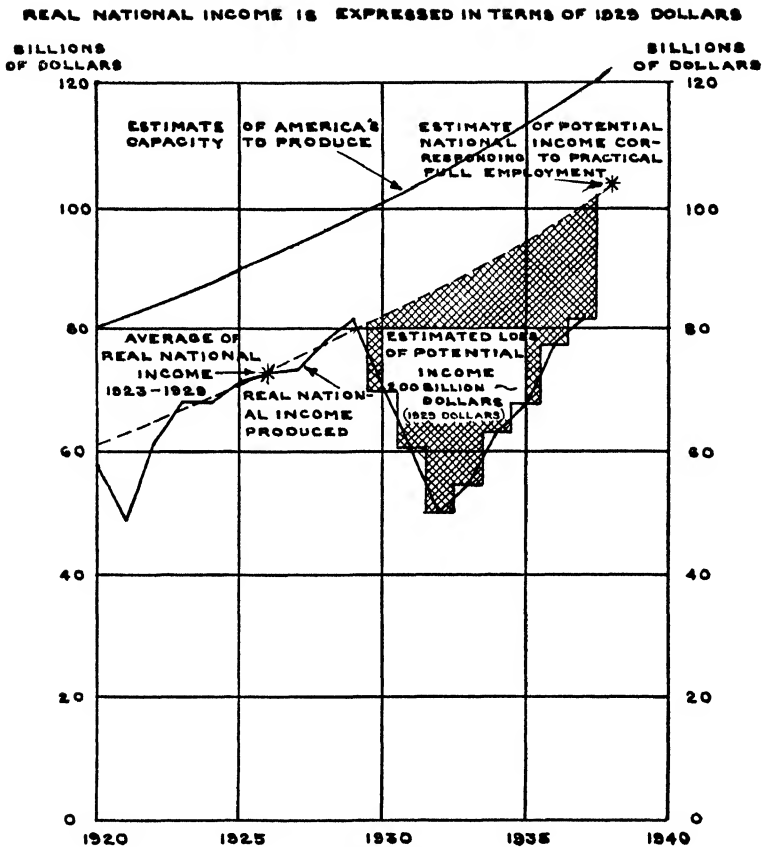
One need not be so pessimistic. A system which passes the major test of effectiveness surely is capable of adjustment to meet the others. It must be conceded, however, that our present order does not measure up satisfactorily in either of the remaining two tests.

In the matter of full utilization of potential productive capacity, modern capitalism reveals an astonishing weakness.

Chart II represents an effort to compare the actual achievements of our American economy in recent decades with the potential achievements possible with the productive capacity which had been developed under the drive of the capitalistic system. Economists might differ in the details of data used in this chart, but there is general acceptance of the accuracy of the picture as a whole.

The gap between actual national income produced and the estimate of available productive capacity represents unused productive capacity in man power, machines, and resources. Chart III, which closely parallels Chart II, presents the same picture in terms of unused man power alone—the problem of unemployment.

At least three outstanding characteristics may be noted in these charts. First, the proportion of the total potential productive capacity which is not utilized is large. For the entire



Loss in Potential National Income Due to Depression Unemployment and Unutilized Capacity of Men and Machines, 1920-1937

For the purposes of this chart, practical full employment in 1938 was assumed to correspond to a residual unemployment of 2 millions, using an estimated labor force in 1938 of 54.5 millions. The estimated potential national income in 1938 corresponding to practical full employment is 103.2 billions of 1929 dollars. This figure was derived from data shown in Appendix 18, section 2, of the report *The Structure of the American Economy*, Part I, National Resources Committee.

America's capacity to produce during the late twenties with the capital goods and labor force which she then possessed and with the technology and the general pattern of operative and commercial organization then prevailing has been estimated as amounting to 19 per cent above what we actually produced in that time. See Edwin G. Nourse and Associates, *America's Capacity to Produce*, Washington, The Brookings Institution, 1934, pp. 415-421.

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seventeen-year period it approximates one-fourth of the total, enough to provide a high standard of living for one-fourth of the population. During the last decade this wasted capacity amounted to over one-third of the total, while at least one-fourth of the available man power was involuntarily idle.

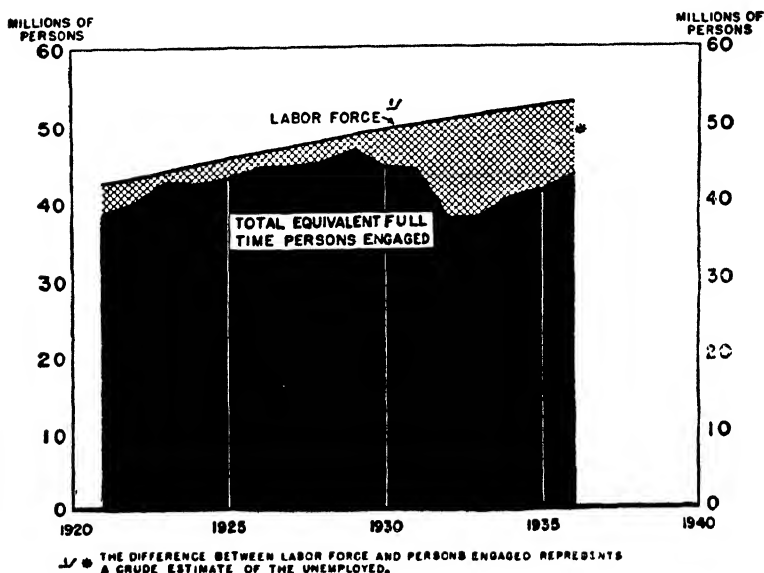


CHART III

Total Persons Engaged and Labor Force, 1921-1936

Source: *The Structure of the American Economy*, National Resources Committee, Part I, p. 32.

The second fact to be noted is that the rate of unemployment and of unused productive capacity is increasing. The percentages of unemployment are definitely larger in the first forty years of the twentieth century than in the last four decades of the nineteenth. Moreover, the problem has been greater in the past few years. There was a larger percentage

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of unemployment during the twenties than in the earlier prosperous period from 1900-1914, and surely no previous experience has approached the depression of the 1930's in the paralyzing of productive capacity and the devastating spread of unemployment.

Some careful economists have pointed out that early data on unemployment are scarce and the available material from 1890 until 1926 would not show conclusively that there was a trend toward increasing unemployment.⁴ However, when we add to this period the experience of the decade ending in 1940, we are forced to recognize an increasingly serious problem. Unless the experience of the past twenty years can satisfactorily be explained as due to unusual circumstances not inherent in our economic system (and no such explanations are available to date), it is impossible to avoid this conclusion.

The third phenomenon illustrated in these charts, particularly in the material with respect to production in Chart I, is the periodicity or rhythmic character of the fluctuations in the volume of unused capacity.

Under any system economic life is a dynamic, changing movement dependent on an extremely complex interplay of forces. It is never a simple orderly development governed by unchanging "economic laws" or "principles," as some economic textbooks might lead us to believe.

Some of the changes constantly occurring in our economic life seem to have a rhythmic character: not only do they recur periodically but they reveal counteracting or compensating forces and tendencies.

Thus seasonal changes in business activity have a certain predictability and dependable rhythm even though exact duplication of performance is rare. Similarly the so-called

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“cycles” of business prosperity and depression reveal some degree of regularity and a series of compensating forces and reactions—despite the apparently increased violence and irregularity of the swings.

Each of these rhythmic phenomena creates unbalance of a more or less temporary character and creates frictions which have a continuous tendency to “unbalance” the structure.

Thus, even if the laws of market competition worked very well to move the economic system back into balance, the constant recurrence of these rhythmic upsets would create a certain amount of temporary maladjustment—illustrated in the unemployment of man power seasonally and in periods of depression.

There is, however, another set of changes constantly occurring. These are the changes which mark expansion, development, and progress in economic life. New techniques, new industries, new methods of distribution responding to the increasing economic desires of an increasing population, continually create new economic situations and require new equilibriums.

Technological changes expand markets and change the ratios of capital to labor, of management to working force, of skilled labor to unskilled. Again, the perfect working of competitive controls in a free market should correct the balance of forces and result in proper equilibrium. But here, likewise, countervailing forces and frictions interfere and balance is not always regained. Monopoly controls and government regulations intervene. Moreover, individual and social interests do not always coincide.

Technological unemployment, frictional lags in the organization of the labor market, and, finally, serious dislocations in the distribution of purchasing power result. All of

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these become cumulative and threaten to disrupt the system. Thus it appears that on the second test—full use of available productive capacity—our present economy records a sharp failure.

A poor showing is likewise made in meeting the final test—equitable distribution of the benefits of production.

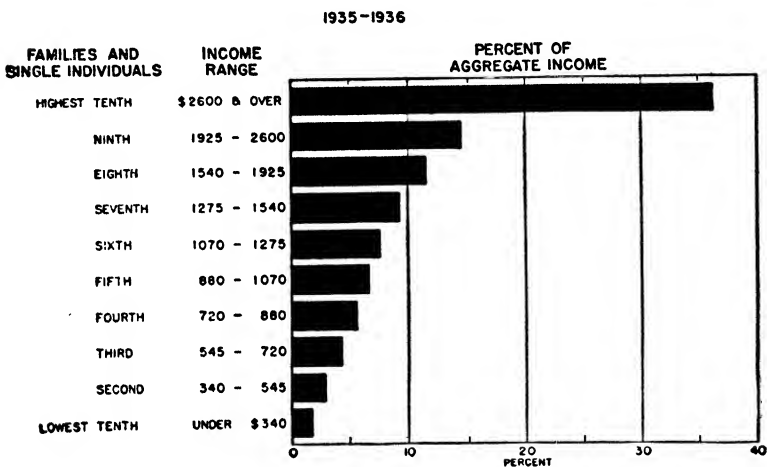


CHART IV

Distribution of Aggregate Consumer Income

Source: *The Structure of the American Economy*, National Resources Committee, Part I, p. 6.

Here again let us look at the record. Chart IV shows for the depression year 1935-36 the actual distribution of consumer income by tenths of the population.

Using the data in Chart IV, we note the striking fact that nearly two-thirds of the national income (62.2 per cent) is controlled by the upper 30 per cent of the population, while the poorest 30 per cent of the population receive less than 10 per cent of the income (8.9 per cent). A sharper contrast

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is found between the top 20 per cent of the people, with 50.7 per cent of the income, and the lowest 20 per cent, with only 4.6 per cent. On the extremes we find the wealthy 10 per cent of the population getting 36.2 per cent, while the bottom tenth gets but 1.7 per cent of the total.

This means that better than 95 per cent of the purchasing power is controlled by 80 per cent of the population with incomes above \$545 per year in 1935-36. It therefore follows that the market is aimed at or near the "center of gravity" of this 95 per cent of the purchasing power. The poorest 20 per cent have less influence on the market than do 2 per cent of the people selected from the upper tenth!

In other words, 20 per cent of the population have no effective way of encouraging production of the necessary amount of goods and services to meet their needs, while the well-to-do elements have incomes so large as to cover needs, comforts, luxuries, desired services, and extensive savings.

This situation is illustrated in Chart V, which shows the ratio between current expenditures and savings in 1935-36 at different income levels, and in Chart VI, revealing the relative expenditures for various items at these different income levels.

Two striking facts are demonstrated in Chart V. First, persons with incomes of \$1250 a year or less spend all of their incomes and many spend in excess of their incomes. For this group (comprising nearly 60 per cent of the people) no savings are possible, and for many of them society through charity and tax-supported relief and benefit schemes (social security, etc.) must provide part of the expenditure to meet their needs.

In the second place, it will be noted that a large proportion of the upper incomes go into savings and thus into capi-

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tal investment. In a period of business prosperity this proportion of savings among upper income groups greatly increases.⁵

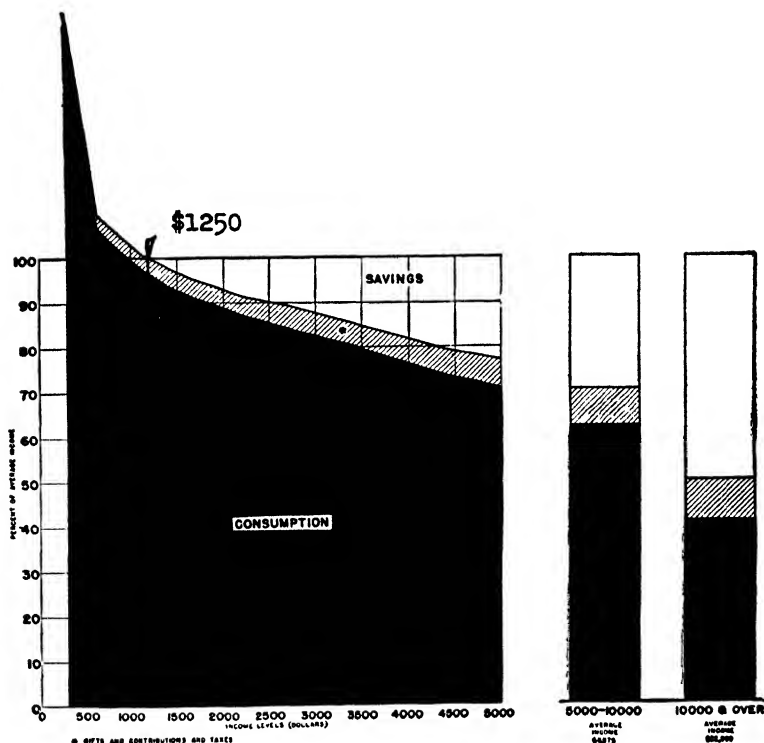


CHART V

Proportion of Consumer Income for Consumption and Savings, 1935-1936, at Different Income Levels

Source: *The Structure of the American Economy*, National Resources Committee, Part I, p. 5.

It will also be observed in Chart VI that among the lower income groups a much larger proportion of the actual expenditures (other than savings and taxes) goes for the basic

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necessities—such as food, clothing, and housing—than is true of the upper income levels.

Can this be described as a picture of equitable distribution of the benefits of production? One must be a calloused

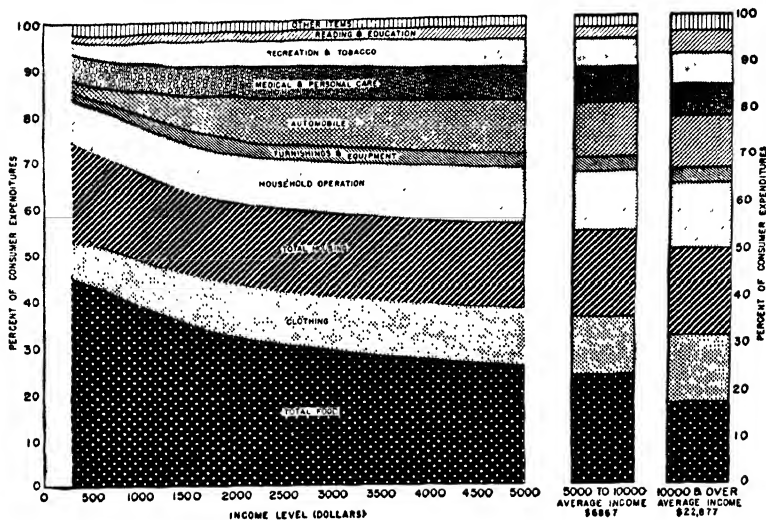


CHART VI

Proportionate Distribution of Average Expenditures for Consumption
at Different Income Levels, 1935-1936

Source: *The Structure of the American Economy*, National Resources Committee, Part I, p. 13.

defender of the *status quo*, indeed, if he characterizes this as equity! Here, in fact, is the reason that “one-third of the population are ill-clothed, ill-housed and ill-fed.”

Equity need not and should not be defined in terms of equal distribution of purchasing power. Human beings are not equal, either in their capacities and contributions or in their desires and needs. Democracy should assure equality of opportunity and not equality of results.

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Perhaps equity in the distribution of purchasing power might be defined to mean a return which approximately measures the value of an individual's contribution to productive activity—recognizing that the contributions of various groups will differ in importance and that individuals within a group will likewise vary in effectiveness.

Viewed from another angle, normal differences in earning capacity should not be accentuated by privileges for the few and restrictions for the many created by legal and economic institutions which interfere with the working of a free market.

Here, then, is the most obvious failure of capitalist economy to meet a test of effectiveness. The human beings who make the system operate do not get an equitable distribution of the benefits of that operation, and the dissatisfaction and suffering which result lead the mass of the participants to challenge the justice of the entire system.

The challenge to the justice of the system is serious. It is at this point that most critics of the system get in their telling blows and secure a hearing for some alternative economic order such as socialism, communism, fascism, or nazism.

Nevertheless, an even more serious challenge is that this inequity in the distribution of purchasing power is unwise and inefficient; that it is, in fact, largely responsible for the failure of the system to meet the second test—i.e., full use of productive capacity.

In other words, it is contended that the long-run growth in unemployment is due fundamentally to an uneconomic distribution of purchasing power which tends to hold down the effective demand for goods and services and thus prevents the full use of potential productive capacity of both machines and man power.

It was shown in Chart II that we are accumulating a vast

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reserve of unused productive capacity. Studies of *America's Capacity to Consume* made by economists of the Brookings Institution⁶ clearly established the point (which no American has doubted) that the people's desires for goods and services far exceed present abilities to secure them and that great in-

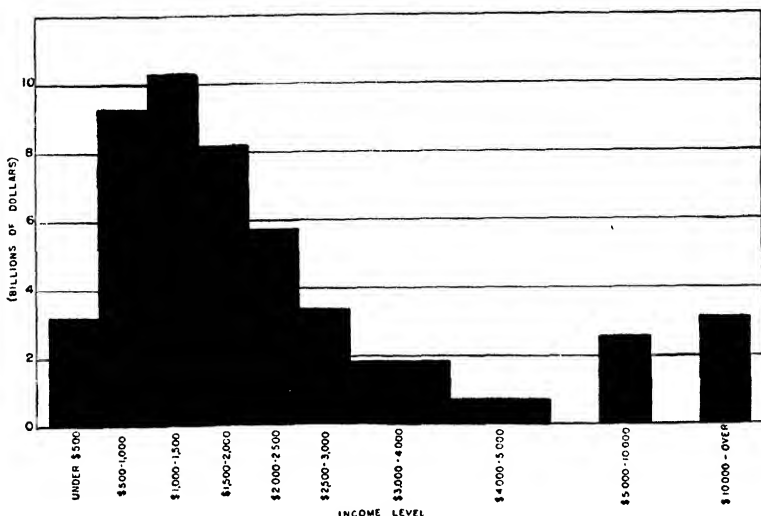


CHART VII

Aggregate Expenditures for Consumption by Income Levels
1935-1936

Source: *The Structure of the American Economy*, National Resources Committee, Part I, p. 9.

creases in national income such as characterized the 1920's are accompanied by great increases in market demands for goods and services, including the necessities of life.

Chart VII illustrates this matter of great potential demand for goods on the part of the lower income groups. It will be seen that in spite of the fact that more than half of the people (nearly 60 per cent) with incomes below \$1250 in 1936 spent all of their funds for goods and services, mostly for necessities, the very poor people (nearly 20 per cent get-

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ting less than \$500) can spend only a fraction of what they would spend for these essential goods if they had an average income, say \$1250.

At the other extreme, as shown in Chart V, persons with high incomes save a large proportion of their earnings and invest them directly or indirectly in capital goods—machinery and plant capacity.

The net result is that as the national income increases—as it increased from 1900-1930, for example, and is now increasing again—a larger proportion of the total goes into savings—into the creation of productive capacity, if you please—and a smaller proportion goes into current expenditure for goods and services! As this trend becomes cumulative it results in a continuous backlog of unused productive capacity and a large volume of unemployment.

Moreover, the cycles of prosperity and depression accentuate the difficulty, and a war situation like the present further stimulates plant expansion. Increasing incomes during boom periods result in disproportionate savings and overexpansion of plant capacity—relative to the ability to sell the goods. In the succeeding depressions both savings and expenditures drop sharply.

The purpose of this book is to explore these relationships in an effort to establish the conditions giving rise to unemployment. Once the causes are clear, the further task is to consider steps which can be taken to increase the use of our potential productive capacity and reduce unemployment. It is our conviction that the causal factors of unemployment can be identified and that adjustments can be made which will make the economic system serve the needs of the people with greater justice and efficiency, and thus move closer to the democratic objective of “freedom from want.”

CHAPTER II

SEASONAL IRREGULARITY

ONE of the continually recurring causes of unemployment is seasonal fluctuation in the volume of business activity. In their introduction to *Reducing Seasonal Unemployment* by Edwin S. Smith, the five employers who sponsored that valuable study aptly characterized the seasonal irregularities of production and employment as the "recurring common colds" of the economic system.¹

Recognizing the essentially rhythmic character of both seasonal movements and cyclical changes these men comment on the interrelationship of these two causes of unemployment as follows:²

These two diseases of the economic social order are different but related, much as are epidemic influenza and the persistently recurring common cold. Our economic influenza has a relatively high mortality and causes much misery when it descends upon us at irregular intervals. But the toll in loss of economic power, in suffering and in lowered vitality of the annually recurring common colds of our economic system, while less dramatic and acute at any one time, is, perhaps, as high as that of its more virulent cousin.

The analogy will bear further stretching. For attention to the seasonal disease is not only warranted in itself, but, insofar as it succeeds, builds up an economic resistance which helps the sufferer survive the more acute cyclical disturbance. Moreover, any concentration on overcoming the causes of the one encourages and advances the study of preventive measures for the other.

The analogy between these rhythmic changes in economic activity and physical disease is likewise helpful in suggesting that just because these phenomena have recurred in the past it

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is not necessary to assume that they are inevitable or are incapable of modification or elimination.

Our immediate purpose is to identify the factors responsible for seasonal changes in business activity with their resultant unemployment.

Even a casual study of seasonal fluctuations in production suggests that part of the variation is due to climatic conditions and part is attributable to characteristics of human behavior which are not controlled by the physical environment in which we live.

Typical of the latter are the industries serving the holiday trade (Christmas, New Year, Easter, Independence Day, etc.) and those affected by what may be called conventional dates, such as the closing of fiscal years, school openings and closings, popular months for weddings (June), and usual "house moving" dates (May 1 and September 1). In this same category, or closely related, are such items as the dates for introducing new annual automobile models. These "man-made" seasonal activities are, however, not so important as the variations which are due directly or indirectly to weather conditions with their twelve-month periodicity.

Perhaps the first fact to note in analyzing the effects of climate on economic activity is that all important industrial producing areas are found in the temperate zones, chiefly the North Temperate Zone.

This is apparently due to two factors: first, the greatest land areas are found in the North Temperate Zone and, second, partly due to that fact, the greatest concentrations of human population are likewise found in this zone. That the preference of human beings, particularly the white races, for life in the temperate zones is an important factor, however, is illustrated in the three great continents which overlap the

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Torrid Zone and the temperate zones; namely, South America, Africa, and Australia.

In the case of South America, although the great bulk of the land area containing vast natural resources lies in the Torrid Zone, the much smaller area which is in the South Temperate Zone (Argentina, Chile, Uruguay, half of Paraguay, and the southern provinces of Brazil) includes the great majority of the white population and most of the industrial and economic activity of the continent.

In Africa the Mediterranean coast from Morocco to Egypt is in the North Temperate Zone and the southern tip of the continent, containing the Union of South Africa, is in the South Temperate Zone. Although these sections comprise less than one-fourth of the land area of Africa, they include nearly all of the white population and most of the industrial development.

Even in Australia we find the northern half of the country, which is in the Torrid Zone, containing only 15 per cent of the population. All of the major cities, with their industrial activity, are in the south: Sydney, Melbourne, Adelaide, Hobart, Brisbane, etc.

Thus, although the land areas of the tropics have great undeveloped resources, there has been and seems likely to be only a very slow and limited industrial development in those areas because of human preferences for living and working in the temperate zones.

The frigid zones not only are limited in land area and natural resources but are inhospitable climates for human habitation and, as a result, very sparsely populated. It thus appears that agreeable weather conditions have had much to do with the location of economic activity, and the seasonal

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changes typical of those locations have in turn influenced the character of economic activity.

Even within the temperate zones relative differences in climatic conditions have had important influences in emphasizing or reducing seasonal fluctuations in production. Of the four great industrial and commercial areas (west-central Europe, Great Britain, United States of America, and Japan) each of the other three has a more equable climate than the United States, due largely to the effects of the Gulf Stream and the Japanese Current.

Among nations of industrial importance only Russia and China have seasonal changes comparable in severity with those of the United States.

The result is that seasonality is a more important factor in unemployment in this country than in these other centers of production. One authority has estimated that not over a half dozen important industries have a seasonal fluctuation in demand for labor in either Germany or Great Britain.³

In the United States, however, so many industries are affected it is difficult to find any that can be entirely excluded from this influence. Within the boundaries of the United States, moreover, variations in climate are considerable and result in sizable differences in the seasonality in business activity.

Thus the southern states, particularly those along the Gulf coast, and the Pacific coastal area face much less severe seasonal changes and show a more nearly even tempo in economic activity. During the period 1928-1933 the author was interested in making a series of studies of unemployment in Minnesota, an area where severe seasonal changes had marked repercussions on the volume of business activity.⁴ A comparison of employment trends in this north-

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west area with the national trends as shown in the Analyst index of business activity reveals a much sharper seasonal variation in the Minnesota cities⁵ and serves to illustrate the degree to which one area may deviate from the national average. Of course the contrasts between different sections of the country are even greater.

Strangely enough the areas within the North Temperate Zone which show the greatest industrial development are frequently located in sections which are subject to great climatic changes, as witness the industrial north and east in the United States and the north-central section of continental Europe.

This concentration of industrial activity in the north and east has created an undue amount of seasonal fluctuation in the economic activity of this country. Apparently the chief reasons for the concentration in this area are historical rather than economic. The initial centers of population were in this section and of course industry and commerce developed locally. Studies of industrial location have revealed that industries do not migrate easily, but tend rather to expand in their old locations.⁶

The accident of early colonial development along the North Atlantic coast thus may be responsible for a considerable part of the present-day seasonal volume of unemployment in the United States. The early settlers in the southern colonies immediately developed an agricultural economy, one so profitable that it became firmly entrenched and dominated the economic life of the south down to modern times. In the north, agricultural efforts were not rewarded proportionately and the growing population turned to industrial and commercial pursuits which, once established, tended to grow in those locations.

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All of this adds up to saying that one reason seasonal unemployment is so large in the United States is that industrial and commercial activity is concentrated to such a large extent in areas of the north and east, where climatic changes are great and cause important variations in production. It should follow, therefore, that the tendency for industry to decentralize toward the south and to develop in the Pacific coast states should have a measurable effect in reducing seasonal fluctuations in employment.

Likewise the growing industrialization of the tropical and semitropical countries should have a beneficial effect in cutting down seasonal unemployment. When we look beyond our national boundaries to the balance of the continent this situation is clearly illustrated.

To the north the vast areas of Canada and Alaska, rich in natural resources, have attracted population only along the southern tier of provinces. All of the important economic development of Canada is concentrated just north of the United States border. Despite this concentration in the most favorable climate, the curve of seasonal unemployment shows much sharper variations for Canada than for the United States.⁷

In marked contrast, the little Central American country of Costa Rica, with limited resources but with an exceptionally equable climate, shows very little seasonal change in employment. In fact, one Costa Rican authority⁸ points out that the major seasonal peak in employment is occasioned by an artificially induced fall rush of production of export items designed for the Christmas holiday trade in the United States.

While this subject will be explored in greater detail in another chapter, it may be pointed out here that, in addi-

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tion to the other advantages which may accrue to our economy from expansion of trade with Central America, the Caribbean Islands, and tropical South America, one important gain may be a smoothing out of seasonal variations in business as the balance of economic activity moves southward.

A listing of American industries seriously affected by seasonal fluctuations in employment is presented in Woytinsky's valuable survey of *Seasonal Variations in Employment in the United States*.⁹

Among these industries some can be identified as directly affected by climatic conditions of the type we have been considering, as for example:

- Agriculture
- Food industries
- Tobacco
- Construction
- Transportation
- Mining, quarrying
- Forest products

In addition to these obvious relationships there are many types of business which derive their seasonal irregularity from a secondary dependence on the industries which are directly affected by climatic changes. Thus industries producing agricultural machinery, or equipment and supplies needed in other highly seasonal industries, have an "induced" seasonal variation of their own. Also enterprises using or marketing the products of the primary seasonal industries are similarly affected. It is clear, however, that the possibilities of management planning to minimize these "induced" variations are greater for this group of businesses.

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One step further removed from direct influence by climatic changes are those industries which were once dependent on actual seasonal shifts but are now more affected by style factors and custom than by any basic seasonal cause. Here the outstanding cases are textiles, wearing apparel, and to some extent wholesaling and retailing.

There was a time when the seasonal production of textile raw materials and the need for appropriate types of clothing for the different seasons combined to make seasonal variations in production inevitable in these industries. Modern methods of storage, warehousing, and merchandising of nonperishable items have largely removed the first factor. As to the second factor, casual observation of spring-clothing displays in the dead of winter, and fur sales in the heat of summer, demonstrates that mere climate has lost the battle to style!

Perhaps it is unwise temerity to suggest that if style and custom are the chief reasons for seasonality in an industry they are more amenable to correction than if Mother Nature takes a hand. Certainly a solution is available in such cases, but there are those who maintain with conviction that it is a simpler task to devise scientific methods of continuing building construction in a northern winter than to persuade milady to buy her Easter hat in the fall!

At the opposite end of the scale from industries whose seasonality is controlled by climate are those businesses where seasonal fluctuations are "man-made," with little or no relationship to the natural seasons.

The tremendous influence of the traditional Christmas holiday on the distributive industries is a case in point. The amusement business is similarly affected, as are all establishments producing items for the holiday trade. Where such

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seasonal fluctuations are tied to deeply rooted traditions and beliefs—as in the case of holidays like Christmas, Easter, and Independence Day—the seasonal peaks cannot be eliminated even though progress in reducing the variations may be made.

However, in cases where public resistance to change is not strong, as in the case of fiscal-year inventories or of dates for releasing new automobile models, more direct action should be possible looking toward regularizing employment and stabilizing business volume.

Some of these seasonal movements in employment are compensating in character from the point of view of the labor market as a whole. Most of the industries directly affected by climate show a winter slack season and a peak in one or more of the warmer seasons—late spring, summer, or early fall. Even here there are countermovements, such as the logging, ice-storage, and fur-trapping industries, with winter peaks of employment. On the other hand, retail and wholesale trade and the industries tied to the holiday trade show a late fall or early winter peak. In general this latter movement is not equal in volume to the “natural” seasonal expansions in the warmer seasons.

The important point, however, is that, since seasonal fluctuations in business activity occur at different periods in different industries, figures of total employment understate the volume of seasonal unemployment. Seldom are the workers who are laid off in the slack season in one industry utilized by another industry which happens to have a peak of employment at that time. The net result is that a more accurate picture of seasonal unemployment is secured by adding up the figures for each industry—rather than by tak-

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ing trends of total employment which conceal offsetting movements.

Just how much of the total load of unemployment can be charged to these seasonal changes in the volume of business activity?

Woytinsky estimates that in an average year the total volume of seasonal unemployment in nonagricultural pursuits varies between 260,000 in October and 1,660,000 in January, with an average of about 1,000,000 for the year.¹⁰ Concerning agricultural employment he points out that from 1,500,000 to 2,000,000 farmers look for other jobs in the slack season (winter), approximately 400,000 "part-time" farmers have other regular jobs but work in agriculture in the summer, and in addition "hundreds of thousands" of members of farm families work in agriculture in the active season without pay.¹¹ He concludes that "the total volume of seasonal unemployment in urban areas in winter is probably 3,000,000 to 3,500,000 above the autumn level."¹²

A more conservative estimate relating to nonagricultural employment is offered by Douglas, based on studies completed before the depression years of the last decade. He concludes that seasonal displacement runs about 6 per cent of the total industrial employment. Assuming 40,000,000 industrial wage earners, seasonal displacement would thus affect about 2,400,000 workers a year.¹³

The Federal Reserve Board in 1930 estimated a 4 per cent seasonal variation in manufacturing employment, with September 2 per cent above and January 2 per cent below the annual average.¹⁴ These data do not allow for offsetting seasonal trends and thus materially understate the total number of persons affected.

Experience with seasonal variations in registrations of

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the unemployed in the offices of the United States Employment Service leads the writer to believe that Woytinsky's estimates are not too large.

Whichever set of figures may be accepted, it is clear that seasonality occasions an important volume of unemployment in the United States—large enough to require the best planning efforts of private industry and of government agencies to reduce the extent of the fluctuations.

CHAPTER III

DEPRESSION UNEMPLOYMENT

PERIODICALLY the volume of business activity and of employment runs into a cumulative decline so precipitate in direction and so prolonged in duration that we characterize it as a "general depression." Moreover, these phenomena have recurred so often under capitalistic economy that we have dignified them with the designation "business cycles" and have evolved a series of elaborate theories as to their causation and the sequence of phases through which they will proceed.

It is not our purpose here to review business cycle theory or even to express a preference for any one explanation of these phenomena, although the writer's prejudices in this matter will doubtless be evident in later discussions.

Our first interest in approaching this problem is to see whether it is possible to distinguish the "depression" unemployed from those who are seasonally unemployed, those who are out because of defects in the labor market so that the man and the job do not get together, and those who are chronically unemployed because of such factors as the maldistribution of purchasing power.

Just who are the unemployed persons whose numbers reach such tremendous (and various) figures during a depression? We still do not know with accuracy the number of the unemployed, although the gradual improvement of employment service coverage gives promise of a reliable measure of the volume of unemployment in the future and the census

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of 1940 gives a first useful analysis of the unemployed as a starting point. Part of the difficulty lies in the imperfections of the statistical techniques to date and part lies in lack of agreement as to what is meant by "unemployment."

Let us begin by looking at some of the figures for recent depression years.

Since 1929 careful month-to-month estimates of unemployment have been prepared by a number of reliable authorities.¹ Though they differ in the amount of unemployment estimated for any month, all of these series are similar in contour. From a low point late in 1929 they rose steadily to a peak in 1932-33 variously estimated at 13,000,000 to 16,000,000, or a quarter to a third of the working population. Since 1933 the trend has been generally downward, with minor interruptions at the turn of each year. The downside of the curve has been much less steep than its upside, although after nine years the original figures have again been reached.

No one can say how many unemployed there are in the United States, now or at any time past. Yet the divergence of figures from various sources is illuminating. Compare, for example, data from three sources, independent of each other, for November, 1937:

Persons actively seeking work through offices of the United States Employment Service	4,400,000
Estimate of total unemployment, Robert Nathan	7,177,000
Returns from the United States Unemployment Census, adjusted for underregistration	10,983,000

How can the large differences between these figures be explained? Though all of them may be cited as evidence of

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the extent of unemployment, actually they measure quite different things.²

The active file of the Employment Service in November, 1937, represented unemployed workers who were actively seeking new job connections. The immediacy of their search for work may be inferred from their inclusion in the file, since applicants to be considered active must have communicated with an employment office at thirty- or sixty-day intervals. Before the start of unemployment compensation payments (and only Wisconsin was paying benefits in 1937), the Employment Service registers were not likely to include many whose idleness was due to a layoff from what they considered a regular job. (In April, 1930, workers in this position accounted for fully one-fourth of all employable unemployed enumerated by the census.) The size of the active file of the Employment Service in November, 1937, then, might be said to measure the number of "jobless" rather than all who were "workless," and to that extent it is an inadequate guide to total unemployment. Moreover, at this time many groups of unemployed workers, particularly in the skilled and white-collar occupations, did not use the employment office.

Nathan's estimate, like all unemployment estimates, is a computed figure, with certain limitations inherent in the method used. It is based on the census concept of "gainful workers"; that is, a person who usually follows a gainful occupation. The number of gainful workers at any time is taken as the measure of the total working population, employed and unemployed. Adjustments for population increase may be calculated on a monthly or on an annual basis by applying the appropriate proportions to each age group, by sex, in the enlarged population. Further adjustments may

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be made to compensate for such factors as lengthening or shortening of the school period and changes in the ages of retirement for various reasons. Nathan's estimates are predicated on an annual increase of 450,000 workers. From the total working population thus computed (in November, 1937, about 52,500,000) are deducted estimates of nonagricultural employment (based on data from the Bureau of Labor Statistics) and of agricultural employment (based on Department of Agriculture data). What remains is the estimate of unemployment.

Assuming a reasonable accuracy in the estimating processes, the results are valid only to the extent that the size and composition of the labor supply in 1930 was adequately measured by the gainful workers recorded in the census. If there were people employable and looking for work in 1930 but unable to report a "usual occupation," they would not be included. As a matter of fact, it has been estimated by responsible authorities that about 300,000 young people, out of school without jobs or "usual occupations," should have been included in the working population of 1930 and were not. Moreover, if the depression forced classes of people into the labor market who were not there in 1930, such changes would not be reflected in estimates of the labor supply based on the 1930 census of gainful workers.

Such an estimate measures what have been called the "disemployed"—those who on the basis of 1930 conditions could reasonably expect to be employed and at work in 1937.

The higher figure of the special Unemployment Census represents the unemployed, as defined by themselves. It is the number of persons who answered in the affirmative when asked if they wanted work and had none. In a sense this

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census may be said to measure the unfilled demand for work, rather than the unused supply of workers. It probably includes all of those to whom the Nathan estimate applies and apparently some three million more outside the adjusted "gainfully employed" population.

Where did the three million come from? Hardly from the ranks of men in the middle working years, since virtually all of those were already included in the labor supply after allowing for the number physically or mentally incapacitated. Hardly from youngsters under eighteen, since the tendency to remain longer in school would reduce rather than increase the job seekers in that group. The two most probable sources are young people of both sexes between eighteen and twenty-five and women between twenty-five and fifty. Concerning the former there is reason to believe that even in 1930 the demand for jobs was understated by the census of gainful workers, and there is evidence that unemployment and irregularity of employment among young people was extensive in 1937. Of the latter it is known that the proportion of women in the labor market has been increasing for more than half a century, and even under "normal" conditions a further increase might be expected. Furthermore, many women above twenty-five not listed as gainful workers in 1930 had worked when they were younger, and it is probable that they would re-enter the labor market if circumstances required.

This deduction is supported by the returns from the special Unemployment Census. Nearly a third of those responding were women, compared to a little over a fifth of the gainful workers in 1930. Although data on their age and occupational status are not available, we know that among female applicants to the Employment Service in 1937 two-fifths

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either were without work experience or were re-entering the labor market after having held no job for four years or more.

On the whole there is reason to believe that many of these "self-styled" unemployed, men and women both, are on the fringes of the labor market. They are beyond the pale of those who had a "usual occupation" in 1930 or can reasonably be supposed to have acquired one since. They are inexperienced and, presumably, on the lower skill levels. They include more than their share of women, among whom lower skills predominate, and they fall outside the generally employable ages.

It has often been observed that the unemployment of one worker, especially if he happens to be the principal wage earner of a family, drives other members of the family to seek work and, conversely, that the re-employment of one worker may retire several others from the labor market. According to the 1930 census two-thirds of the families in the United States having gainful workers had only one worker; consequently, if that one loses his job any others who may seek to recoup the loss will not have a "usual occupation" as defined. To that extent they are substandard and unlikely to find work in a period of widespread unemployment.

Although families containing several workers are in the minority, they present special problems. A 1937 study of income and expenditures of urban families indicates that, while incomes are higher in families with more than one worker, individual earnings are lower.³

As might be expected, the earnings of the principal wage earners in these families were lower than the earnings of those in the families with only one wage earner; and the

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earnings of the auxiliary workers were lower still. It does not follow necessarily that workers in multiworker families are less employable or less stable in employment than the others, but it is known that they are subject to greater unemployment.

It seems clear that, among the lowest-paid classes of workers, families with several workers are more frequent than among the higher-paid classes. All of which suggests that it is the pressure of extremely low earnings that drives auxiliary workers to find work, at however meager wages. Thus does poverty not only create but augment the industrial reserve army!

To return to the unemployment estimates: Nathan's computed figure, as we have seen, represents the number of "disemployed gainful workers," those who on the basis of 1930 conditions could reasonably be expected to be working in November, 1937, but were not. The difference—about three million—between this figure and the report of the Unemployment Census represents the unfilled demand for jobs, outside the 1930 census definition of the labor supply. It seems likely that this difference is not a measure of unemployment in the strict sense, or "disemployment," but rather an expression of inadequacy of income, from whatever cause. Further, it may be said that unlike the labor supply, which is assumed to increase in response to offers of higher wages, this demand for jobs increases as individual earnings decline, as the result of unemployment, of short-time work, or of reduced wage rates. True, much of this demand apparently comes from persons in the more remote recesses of the labor supply, if they are strictly part of it at all; but the demand, as a protest against insufficient income, cannot on that account be dismissed as inconsequential.

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On the whole it would appear that for November, 1937, at least, Nathan's estimate is closer to the number of "genuinely unemployed" than either the registrations of the Employment Service or the figures of the special Unemployment Census.

With the development of unemployment compensation and the growing use of the employment offices by skilled and white-collar workers, the employment service coverage of the unemployed is now more complete.

Moreover, the experience with the special Unemployment Census of November, 1937, as well as with the Unemployment Census of 1930 enabled the Census Bureau to do a much more satisfactory job of measuring unemployment in the 1940 census. As a result, the three comparable figures for March, 1940, were as follows:

Persons actively seeking work through offices of the United States Employment Service	5,000,000 ⁴
Estimate of total unemployment, Robert Nathan	10,500,000
Returns from sixteenth census of the United States, 1940	8,000,000 ⁵

It should be pointed out that the group of approximately three million "would-be" workers who included themselves in the special Census of the Unemployed in November, 1937, is not represented in the March, 1940, figures. Their inadequate incomes and "underemployment," nevertheless, represent an important social problem—which becomes much more acute in depression periods.

Even with this group eliminated the remaining "unemployed" include several distinct groups of people whose problems of employment or unemployment are quite different

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in character. This total includes at least three broad groups which can be easily distinguished.

The first group represents individuals who have very good work histories; who have been out of employment a very short time; who work in seasonal industries, white-collar or professional pursuits, or highly skilled trades; and about whom no immediate social planning or provision of public work or relief need be made. They are out of a job because of seasonal fluctuations or because of labor market frictions which keep workers and jobs apart. None of these people are known to any relief agency. They are self-supporting and, as a result of fairly rapid industrial turnover, will be re-employed quickly, at their old position in a seasonal industry, in some new attachment, or in self-employment. As a matter of fact, these people are not known in general to the public employment offices. They find their own means of a new job attachment. For this entire group, who are unquestionably out of work at a given moment, society needs to make no immediate provision. If business conditions were better and the total employment picture improved, fewer of these people would be out even temporarily and they would be much better off by avoiding the necessity of drawing on savings or living with relatives during temporary periods of readjustment.

At the other end of the scale we find another group of the unemployed, those who are known to the relief agencies. They include the people receiving various kinds of relief in local communities, as well as those working on the W.P.A. and other public work programs. While this group includes some unemployable people, probably the bulk of them are individuals who have been successfully employed and with some retraining or readjustment could be successfully em-

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ployed again if the opportunity offered. A large percentage of them are drawn from the unskilled and semiskilled occupations, domestic service, and migratory agricultural labor. Many if not most of these people have been out of work for a long time and their chances of re-employment are not good. They form the "hard core" of the unemployed—a group which is augmented in size during depression periods but which exists in large part even in so-called prosperous times.

The remaining group—the middle band of unemployed—represents those who are not as yet known to the relief agencies. They comprise the upper half or two-thirds of the registrants in public employment offices. During July, 1941, the total registration in public employment offices was about five million, of whom nearly one-third were people working on W.P.A., N.Y.A., and other types of public work and relief programs and thus in the lower group of the unemployed. The balance belong to this middle group—competent workmen in all fields whose sole reason for unemployment centers in industrial conditions creating a lack of jobs. They have been out of work a somewhat longer period than the first group mentioned, and their skills and training are in particular occupations or industries in which opportunities were not presently available. A considerable portion of them were technologically unemployed. They comprise the bulk of the "depression unemployed."

It is this middle band of unemployed workers that get the great bulk of placements through the public employment services. While efforts are made to place the people working on W.P.A. and other relief and work programs, by and large they are not as effective potential employees as are these individuals who have been out a shorter period of time and

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have not as yet been forced on the relief rolls. It is this group concerning whom a great deal of intelligent planning needs to be done at the present time. As the war program speeds up employment, this is the group which secures the greatest benefit. The first group was out only temporarily in most instances and was quickly reabsorbed with the first small expansion in business activity.

At the other extreme it seems likely that, even with the great expansion in business activity due to war needs, the greater part of the "relief unemployed" will not be reabsorbed. They lack the particular skills and immediate employability needed for war production, and we are witnessing the anomaly of regularly employed workers being transferred from normal business to war work while the number of unemployed persons on relief remains at a relatively high figure.

It thus appears that what we have called the middle band of the unemployed is the particular group whose unemployment can be charged to the business depression.

At the bottom of the depression, say in 1933-1935, this group of "depression unemployed" may have accounted for more than half of the jobless, but probably less than two-thirds. As the depression ends—i.e., as production indices reach and exceed 1929 levels—this group of workers are practically all re-employed, although unemployment remains with us as a major problem of economic maladjustment.

If it is true that organized labor and certain other groups overstated the seriousness of the recent unemployment problem by including the upper band of those out of work among those for whom provision must be made, it is equally true, on the other hand, that organized industry and business

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understated the problem by confusing the total unemployment problem with the relief problem.

While it is not our purpose to indulge in a statistical presentation of the numbers of unemployed, it may be worth while at this point to indicate some of the estimates of the size of the group of "depression unemployed" we have just been discussing. The four best-known estimates of unemployment which have been available throughout the period of the thirties⁶ have been supplemented since 1938 by a C.I.O. estimate. Perhaps the most careful study of unemployment figures in recent years has been made by Woytinsky in a number of reports to the committee on Social Security of the Social Science Research Council.⁷

Beginning in the spring of 1930 Woytinsky estimated 3,200,000 persons were unemployed in April. (The other estimates for April, 1930, range up to 4,000,000.) Few of these people were as yet casualties of the depression; probably 1,500,000 persons were unemployed in the summer and early fall of 1929 due to factors other than seasonal and cyclical fluctuations in business. Moreover, some of the unemployed in the early spring of 1930 were seasonally out.

A year later the figures had doubled, ranging from 7,500,000 to 12,500,000. The peak of unemployment was reached in March of 1933, with the various estimates showing these results:

Robert Nathan	13,808,000
W. S. Woytinsky	14,300,000
National Industrial Conference Board	14,762,000
American Federation of Labor	15,653,000
Alexander Hamilton Institute	16,467,000

Woytinsky's analysis reveals that, of his 14,300,000 total,

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8,050,000 are accounted for in the drop of nonagricultural employment since April, 1930, and approximately 1,200,000 represent new workers added to the labor market.

The balance of 5,050,000 include the 3,200,000 who were unemployed in April, 1930, and 1,850,000 "additional" workers brought on the labor market through the unemployment of usual breadwinners. As we have seen, this latter group represents more a problem of inadequate family incomes due to depression than actual unemployment.

It seems fair to conclude that at the peak of unemployment some 9,250,000 to 9,500,000 out of 14,300,000 were among the "depression unemployed"—something less than two-thirds of the total.

Revival of business activity began in 1933, stimulated by the N.R.A., and continued with some interruptions until the fall of 1936, when the volume of unemployment was estimated at from 5,378,000 to 8,145,000.

The renewed depression or "recession" in 1938 pulled the estimates up, Woytinsky estimating slightly over 9,000,000 in March, 1938, and others varying from 10,000,000 to over 11,000,000.

In the last four years a marked drop in unemployment has occurred, accelerating rapidly in 1940 and 1941 with the effects of the defense program. In March, 1940, the estimates revealed from 9,194,000 to 11,576,000 unemployed. As previously noted, the 1940 census count of the unemployed totaled 8,000,000 and the rapidly improving active file registration of the United States Employment Service showed a figure of 5,000,000 for the same period.

For March, 1941, and for March, 1942, the comparable figures were as follows:

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<i>Estimates of Unemployment</i>	March, 1941	March, 1942
National Industrial Conference Board. . . .	6,635,000	3,454,000
Congress of Industrial Organizations. . . .	9,064,000	7,012,000 ⁸
U. S. Employment Service Registration. .	5,166,000	4,559,000
W.P.A. Monthly Report of Unemployment	6,800,000	3,600,000
Alexander Hamilton Institute.	7,260,000	5,200,000

At the same time all indicators of the volume of business activity show that the depression has ended, at least in so far as reaching and surpassing 1929 levels of activity are measures of the end of the cycle.⁹

It should be noted in passing that the volume of residual unemployment is much greater at the end of this depression period than at its beginning, as was also true in the 1920-1923 period.

This suggests that some of the "depression" unemployed pass into the hard core of the long-run unemployed, just as some of the individuals who are most seriously affected by seasonal unemployment are among the early and persistent victims of depressions.

One other consideration deserves attention before leaving this review of the depressions as a factor in unemployment.

Regardless of divergence of views among economists as to the causes of business cycles, most authorities are agreed on certain points.¹⁰

One of these points is that producers' goods industries are more sharply and seriously affected in depressions than are consumers' goods. Similarly, durable goods are more influenced than perishable items and, finally, luxury goods are more subject to cyclical variation than are necessities. These differences are illustrated in Table I.¹¹

It follows, of course, that workers in these industries will be more heavily represented among the depression unem-

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employed and these differences must be kept in mind in any planning designed to reduce this type of unemployment.

Another point on which there is rather general agreement is that the self-correcting influences in the business cycle—those factors tending to re-establish economic balance—

TABLE I

Sensitivity of employment to depression in specified segments of the economy

Index of sensitivity to depression (percent range)	Services	Non-durable	Semi-durable	Durable	Construction
0-10	Federal Government except Post Office Post Office State and local government Telephone Electric power and light Banking and finance Automobile transport Telegaph	Flour milling Cane sugar Petroleum refining Butter and cheese Bread and baking Meat packing Newspapers, printing and publishing Tobacco	Rayon yarn *		
10-20	Transportation other than rail roads	Printing and publishing, except book and music Candy Paper products Blain mineral Anthracite coal Manufactured gas Canning and preserving Candy confectionery Paper and pulp	Boots and shoes Kitt goods Dyck and fishing Bak and mayon Wearing apparel Glass	Copper smelting	Construction
20-30	Railroads		Rubber tire Leather Leather products other than shoes Printing and publishing, book and music Other textiles Fruit and varnish Wooden and wickered Rubber product (excluding tires and tubes)	Nonferrous metals other than copper	Cement
30-40	.....	Fertilizer Coke	.....	Potters Nonmetallic mining	
40-50	.....	.....	.....	Furniture Automobile Iron and steel Iron and steel products Tram and street equipment other than automobiles Other machinery Electrical machinery	Timber and millwork Lumber product Iron ore Marble, granite, etc
50-60	.....	.....	.....	.....	.....

Source: *The Structure of the American Economy*, National Resources Committee, Part 1, June, 1939, p. 73.

have never completely worked out. In other words, had it not been for a steady growth in total production from period to period (including prosperous and depression years) the frictions in our economic system would have prevented complete recovery in employment at the end of each succeeding depression.

The rate of growth in total production was enough faster than the increases in per capita productivity (at least until recently) to bring about virtually full employment of labor at the successive peaks of prosperity.

This explains why some persons who lost their jobs due

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to business depression cannot be reabsorbed merely as a result of the recovery of activity in those industries. Vast new employment opportunities need to be opened up if employment is to be held on an even keel—to say nothing of expansion to take up population increases.

Whether such new opportunities can be uncovered in the future, sufficient to more than offset a rapidly increasing per capita efficiency, is a question we will explore in later chapters.

It is sufficient at this point to emphasize that not all of the persons out of work during a depression by any means are chargeable to the rhythmic fluctuation in production which we call the business cycle.

CHAPTER IV

LABOR MARKET FRICTIONS

THUS far we have been considering types of unemployment occasioned by recurring fluctuations in the volume of business activity, seasonal and cyclical. There are other changes in economic activity which appear persistently and result in the dislocation of workers. These changes, which we have called labor market frictions, do not occur in rhythmic sequence either within a single year or over a period of years. Rather they introduce new conditions which require a readjustment of economic arrangements to re-establish balance in the industrial structure. Some of these conditions are a by-product of the complex interrelationships which result from extensive division of labor and the mass-production methods of modern capitalism. Others result from the technological changes which introduce constant improvements in productive methods.

Before analyzing the effects of technological improvements on unemployment, let us consider the labor market frictions which exist as a result of the complex character of our industrial mechanism.

In a simple economic system, such as characterized the early days of American national life, it was not a difficult task for the individual to find the job for which he was best suited. In the first place, his range of choice was limited. In any pioneer community the number of occupations was not great and the proportion of the people who were self-employed was considerable. If the person seeking work was

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not familiar with an occupation or the possibilities of a certain business enterprise, it was not difficult for him to find someone in position to inform him.

In the second place, in an expanding and developing country it was always possible for individuals who found no working opportunities in an older and settled community to strike out for a newer and undeveloped area where a variety of work opportunities could be found.

Moreover, in such a simple community it was comparatively easy for an individual to learn of the needs and possibilities in certain occupations and to prepare himself through training and experience for the trade, occupation, professional or business pursuit which seemed to offer him the best opportunity.

Likewise, the employer's problem was not difficult. The number of jobs any single employer had to fill were not numerous and, while calling for definite skill, were neither so specialized in function nor so interdependent in relation to other jobs as is true in the complicated modern economy.

Accordingly the employer, needing few workers and familiar with many if not most of the people in the community, found little difficulty in contacting and securing the workers needed. More or less formal arrangements for apprenticeship and training provided a supply of younger workers to meet the needs in most occupations. In such an economic society there was no need for any formal machinery to bring about satisfactory adjustments of workers and jobs.

When we shift our attention to the modern industrial picture, it is obvious that the problem is not so simple. Instead of small self-sufficient communities producing goods and services largely for local consumption, modern industry produces for a world-wide market. Instead of a few well-defined occupa-

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tions from which to choose, modern mechanization and specialization of production has resulted in thousands of operations or jobs, whose very names are unknown outside of the industry in which they are found. The *Dictionary of Occupational Titles* lists 17,500 distinct occupations with 29,500 main and alternate titles.¹

Instead of a small community from which to select a few workers, the modern employer may need to bring together thousands of workers for an industrial plant located in one city. Instead of choosing from a few persons well known in a community, those whose experience and background would best fit into his trade, the modern employer must find means of securing many workers to fit into hundreds of jobs or occupations, many if not most of which he has not worked at himself.

In contrast with the early employer, who knew his probable labor needs well enough to be able to arrange apprenticeships to train young workers, the modern employer cannot control his own market. Changes in taste and style, new inventions, and substitute products unexpectedly appear and rapid shifts in production result, with inevitable and often unpredictable dislocation of labor.

The modern worker *cannot* easily locate available jobs and he *cannot* secure adequate information with respect to the requirements and possibilities of the thousands of kinds of jobs which make up our complex economic structure. He cannot even be reasonably sure of keeping a job he secures and for which he is well qualified!

The modern employer *cannot* easily locate workers known to be qualified for an immense variety of jobs—so numerous that he must often card-catalogue them to remember their names, to say nothing of their requirements. Moreover, he

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cannot readily secure information about workers' qualifications for these jobs. He cannot undertake to train workers extensively for future employments; indeed, he often cannot provide for steady and continued operation of his enterprise at a profit. Insecurity characterizes the lot of the modern wage earner!

The past century and a half have marked tremendous social progress. For all economic classes there has been an improvement in the material standard of living, and for society as a whole great progress as a result of harnessing the forces of nature and improved techniques in the production and distribution of goods and services. No thinking person would return to the older economic order.

Nevertheless, one of the by-products of this process has been an increasing insecurity for all classes, particularly burdensome to the lower income groups among the wage workers.

Society cannot afford to turn back, but society must face certain costs of progress if it is to retain the benefits of this material advance! Among these are the costs of insecurity in the working groups. The individual cannot control the factors in modern economic life causing this insecurity. Even the employers, often banded together in powerful groups, cannot control some of these factors, much less the worker—when well organized he is still weak; individually he is helpless!

Insecurity comes sometimes in the form of periodic unemployment.

There is another form of insecurity which results from the worker's inability to get a job when somewhere a suitable job may be available. He does not know where it is, what it is, or how to get it. He does not know whether he is suited to perform the work or how to train himself for it.

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The employer often does not know where to find suitable workers or how to determine whether they are fitted to handle the job.

Society, in its efforts to provide public education to train workers for useful employments, often adds to this insecurity by training people for jobs which are overcrowded, failing to offer training for available jobs, or trying to train people who are not fitted for certain occupations.

The net result of this situation is that a certain volume of "unnecessary" unemployment exists because the labor market is not functioning automatically to bring job and man together. These frictions in both time and space adjustments are due to imperfect knowledge of employment opportunities and imperfect organization of labor market machinery to get workers and jobs together.

How large this volume of theoretically "unnecessary" unemployment is cannot be estimated with accuracy. The experiences of the United States Employment Service in recent years, however, suggest that it is considerable.

Among the millions of unemployed registered in the public employment offices during the depth of the depression, over one-fourth were young people who had little or no work experience and found it difficult to get a job because of two factors:

1. Lack of specific training for any particular job
2. Lack of techniques for determining their suitability for jobs in which they had no experience

Moreover, roughly half of the adult registrants were workers dislodged from occupations in which employment opportunity had declined and who must therefore seek new jobs in unfamiliar fields.

For both of these groups two things are necessary to secure employment. First, total employment volume must be large

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enough to absorb them and, second, they must contact the job and must demonstrate job suitability in terms of either the completion of necessary training or the possession of skills and aptitudes required for the work.

To the extent that the delay in getting the job is due to the second set of difficulties, we have unemployment due to "current labor market frictions." As we shall see in a later chapter, the chief justification for a nationwide employment service is to provide a means of reducing unemployment due to these avoidable labor market frictions.

So-called technological unemployment may be viewed as the lag in re-employment where individuals have lost their jobs as a direct or indirect result of some change or improvement in our industrial system.

It is not implied that persons so dislodged are permanently unemployed, or even that total unemployment is increased in the long run. We have chosen to regard technological displacement as a form of long-run labor market friction. In such cases not only must the individual face the difficulties we have discussed above but the industrial structure must be readjusted so that the newer methods of production or distribution will reabsorb the workers.

When a change occurs in industry, such as the introduction of a new laborsaving machine, the question arises—will the lowered costs of production due to the improvement bring about an increase in production sufficient in volume to re-employ workers to the number previously displaced? The same workers need not be reabsorbed—the question is one of total employment.

If there is a net residue of displaced labor, then "technological unemployment" is contributing to the growing "hard core" of unemployment—as well as constituting a source of temporary joblessness. On the other hand, if the

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expansion of production ultimately reabsorbs the workers in equivalent number we have merely a long-run aspect of labor market friction.

Some few economists and many labor leaders are convinced that the "machine" permanently displaces a certain percentage of the working force and thus contributes to the long-run growth of unemployment.²

Most economists, however, are agreed that technological changes themselves do not create permanent unemployment.³ We are inclined to go along with the majority viewpoint. By and large the resultant expansion of production has made possible full reabsorption of the proportion of workers dislodged by specific innovations.

It may happen, however, that the normal expansion of productive capacity which results from an invention or an improvement in management practice is not fully utilized. This defect cannot be charged to the technological change, since the history of the capitalistic system has clearly demonstrated that time after time the great increases in production which follow inventions are more than sufficient to reabsorb the dislodged labor despite increased per capita productivity.

It should be observed that many of the employment effects of technological changes are indirect. In the first place, the industry where the change takes place may strengthen its competitive position and expand production, while a competitor located in another section of the country may lose ground and lay off workers. Whenever the change consists of the introduction of a new product, the direct effect is a new field of employment; losses of employment are more likely to occur in established industries.

Improvements in transportation may build up some localities and cause unemployment and business decay in others. So, also, the time when a change is introduced may res...¹⁴

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either in immediate unemployment or in a delayed effect, as in the case of improvements perfected in a depression period for application when production expands again.

Contrary to the contention that technological improvements are a source of long-run increase in unemployment, it may be pointed out that in the absence of such changes a relatively static productive system would result and it seems likely that population increases would threaten to create a serious backlog of unemployment.

What has happened is that the rate of growth in production through the years since the industrial revolution has been fast enough (in spite of increases in productivity of labor) to bring about relatively full employment at the successive peaks of prosperity until quite recently. The rate of technical change was rapid in the early stages of the industrial revolution and again has become extremely rapid in the last two or three decades.

Though the rate of change may vary in the future as in the past, there is no reason to believe that technological advances with resultant expansions in productive capacity will not continue. Reports of the United States Patent Office tell an interesting story in this connection.

<i>Date</i>	<i>No. of patents issued</i>	<i>Selection of one from among more important inventions coming into general use during decade</i>
1881-1890	218,000	Telephone
1891-1900	235,000	Automobile
1901-1910	324,000	Moving picture
1911-1920	401,000	Airplane
1921-1930	452,000	Radio
1931-1940	485,000	Plastics

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If we conclude that technological unemployment is a continuing characteristic of our economy, provision must be made for the occupational readjustment of its victims. Some studies⁴ have been made of what happened to technologically displaced workers, suggesting that the individuals who are dislodged by such changes need not only the usual services of a well-organized employment exchange but also assistance in the way of retraining and occupational readjustment.

In any case the older workers who lose out in these situations have little chance of re-employment—such new opportunities as open up are filled by the younger people. To this extent technological change probably operates to speed up the sifting-out process which absorbs the younger workers and leaves the older group more persistently in the “hard core” of the unemployed.

Another form of labor market friction which gives rise to unexpected unemployment is the high rate of mortality in the life of business establishments.

In capitalistic economy the managerial unit which we call a business establishment is the source of employment, both for man power and for capital. Therefore the demise of a business destroys the employment relationship and forces both capital and labor to find a new source of attachment. It is not commonly recognized that the life of the average business firm is short.

Studies⁵ have shown that in manufacturing the typical establishment has a life of eight years; for wholesale firms the average is seven and one-half years, and in the retail business the figure is six years. During the five-year period 1926-1930 over 12,000 firms went out of business in the three cities of Minneapolis, St. Paul, and Duluth, and a slightly smaller number of new firms were organized. In

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1930 there were approximately 16,000 firms operating in the three cities; the number that went out of business during the five years is equal, therefore, to 75 per cent of the total in existence in 1930.

The garment industry in New York shows an exceptionally high rate of turnover for individual firms, whose life expectation does not exceed five years. The mortality rate for business establishments has been increasing with the growing complexity of our economic system. It becomes much more difficult for the businessman to estimate market demand for his product and equally complicated to forecast changes in his cost factors, such as raw materials, labor, and machinery.

Moreover, the increasing violence of the changes in direction which characterize the business cycles multiply the hazards. Government regulations and taxes add to the uncertainties. Generally speaking, the smaller establishments are harder hit and less able to cope effectively with all these complexities. Probably the increasing difficulties of managerial decisions facing the small enterprise and the resultant large number of failures have much to do with the growth of large-scale enterprise and monopoly on the one hand and government controls on the other. A complex and interdependent system of production is not fertile ground for free competition!

Here, then, is another source of frequent and sizable dislocation of man power with a period of inevitable unemployment until new opportunities can be found. The problems faced by the dislodged individual in cases of business failure are much the same as in the case of technological change. It may mean a change of industry and location and it certainly means a new employer must be found. However, it is less likely to necessitate a change in occupation than in the case

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of technological change and therefore may not require so much in the way of retraining and readjustment of work habits.

Still another form of labor market friction may be found in artificial restrictions on trade, both interstate and international. Despite great differences in relative self-sufficiency of the different nations or sections within a nation, no area of the earth's surface and no national group is economically self-contained. Our economy is world-wide and the greatest effectiveness in its operation is obtained with the freest possible trade arrangements between all parts of the globe.⁶

It follows, therefore, that restrictions on the free development of productive enterprise or the free flow of goods and capital, such as tariff barriers, interstate quota restrictions, etc., are sources of dislocation of industry and unemployment of man power. Moreover, changes in these restrictive or control measures are disturbing elements in themselves, no matter in which direction the changes move, since they require readjustments of the economic mechanism and cause at least temporary maladjustments and unemployment.

It may be possible for a large and well-balanced section or nation to establish a new equilibrium as a result of a major change in world trade due to tariff barriers or war embargoes and to re-employ eventually all the dislodged workers and capital, but it will mean, in many instances, either a residual of unused capacity or a lowered standard of living or both (see Chapter XV).

Although in such circumstances a permanent increase in unemployment could result, the evil effects of such restrictive policies have usually led to corrective action and we have chosen to classify even this uncertain factor as a "long-run labor market friction" rather than a necessary and inevitable cause of an increasing volume of permanent unemployment.

CHAPTER V

THE WAR AND UNEMPLOYMENT

EACH of the causes of unemployment so far considered has created temporary dislocation in business activity and employment, and in each instance compensating and counteracting forces have sooner or later resulted in reabsorption of the unemployed. The duration of inactivity may be short, as in the case of seasonal variations and current unemployment due to lack of knowledge concerning available jobs, or it may be extended, as in depression periods and cases of technological unemployment.

Again re-employment may be almost automatic and in the same occupations and industries, as in seasonal and much of the depression unemployment, or it may be a difficult problem of retraining and occupational readjustment in instances where the worker is forced to change jobs, industry, or location because of shifts in international trade or technological changes in the productive mechanism.

A war situation cannot be said to introduce any new *cause* of unemployment; rather, it creates sharper maladjustments and changes the rates at which certain causal factors operate. In general a war stimulates expansion of productive capacity at abnormal rates and thus has an initial effect analogous to a tremendous upswing of the business cycle. The aftermath of wartime expansion is usually an abnormal depression and severe unemployment.

Not only is the scale of the wartime "cycle" greater but the dislocations in productive activity are further accentuated

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by the shift from normal to "war" industries with resultant problems of excess expansion in some fields and undue restriction in others.

It may be said, then, that a war accentuates the problems of "depression" unemployment and increases the various labor market frictions, requiring a tremendous amount of readjustment of dislocated man power. The problems of transferring men from military and war-production occupations to normal production are complicated by the accelerated rate of technological change characteristic of a wartime economy. Whether a war situation will likewise contribute to the growth of long-run unemployment may depend (as we shall see in the following chapter) on how the war effects the underlying distribution of purchasing power in the nation.

In order to understand the probable future effects of the present war situation on the problem of unemployment, let us analyze what is now happening—in the light of our earlier experience with the first World War as well as the recent experiences of European countries, in so far as we can learn about them.

With modern industrialized warfare the cost of either defense or aggression is increased beyond any previous experience. In the nations now actively at war such expenditures exceed 50 per cent of the national income. In Britain the figure early in 1941 approximated 60 per cent,¹ and estimates place the German ratio for 1941 at 72 per cent and that of Italy and of Japan at over 50 per cent. Canada was using 30 per cent of her income in 1941, and even the United States was carrying a defense or war load of 15 per cent in 1941, perhaps 40 per cent in 1942, with over 50 per cent anticipated in 1943.²

Such tremendous and rapidly expanding expenditures are

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bound to have far-reaching effects on the industrial system under any circumstances. However, the conditions of employment or unemployment existing when such wartime expansion begins will make important differences in the results. If there is general unemployment when the wartime effort begins, the effects are more favorable for the whole economy. In such a period all resources, human and material, are underemployed and a major expansion of activity, even in defense or war industries, pulls up the whole level of national income and employment.

Available unused plant capacity and unemployed man power can be devoted to the new needs without diverting such resources from normal production. Moreover, the war industries have a stimulating effect on other businesses because of increased purchasing power and expanding markets for raw materials.

It is also likely that under such circumstances a considerable war expansion of production can take place without material increase in prices, since the increase in national income is paralleled by increase in consumers' goods to be purchased.

Germany was in this situation in 1933 when Hitler began his war-industry program. One-third of the insured wage and salaried workers were unemployed in January, 1933. The largest reduction in unemployment came during 1933-34. The first "four-year plan," beginning in 1933, called for unrestricted increases in production and employment, and for at least two years this expansion proceeded without substantial price increases.

In contrast with this situation the United States and most of the European belligerents entered the first World War when business activity and employment were already at

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rather high levels due to several years of prosperity and expanding trade.

Under these circumstances either wartime production must be superimposed on the existing economic structure, resulting in tremendous overexpansion, or drastic and rapid curtailment is necessary in normal production of goods and services, with resulting serious dislocations. In the United States both solutions were attempted in 1917-18 and we experienced serious price increases and sharp dislocations of the industrial structure.

Between periods of general unemployment, such as all nations faced in 1933, and relatively full employment, comes the stage of partial or "segmentary full employment."³ In such a period bottlenecks of "full use" begin to appear in certain industries and in certain groups of skilled workers, while there remain many industries with unused capacity and large numbers of unemployed persons.

This was the situation in Great Britain as she entered the war in 1939, and in the United States as the defense program got under way in 1940. General unemployment in Britain had been reduced to 8.2 per cent of the insured workers by mid-1939.⁴ As the war began, bottlenecks appeared in the industries dependent on imported materials. At first there was no effective control of production and the dislocations resulting from expansion of war industries actually increased unemployment to 10.3 per cent in February, 1940. Control procedures were introduced, including priorities on raw materials, price controls, and forced savings, and by September, 1940, unemployment declined to 5.2 per cent.

In Germany beginning in 1935, despite centralized controls, the restrictions and readjustments necessary in the intermediate period slowed up the rate of re-employment to

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less than one-third of the earlier rate. Nevertheless, by June, 1938, practically every industry in Germany was operating at capacity and there was only 1.3 per cent unemployment.⁵

What is the situation in the United States? As we entered the defense program in 1940 we had, as cited earlier, a sizable number of unemployed and much unused plant capacity in many industries. Even at this period, however, there were shortages of skilled workers developing or existing in many occupations.⁶ By the summer of 1941 the number of unemployed available for work assignment had been sharply reduced. The Twentieth Century Fund research staff⁷ estimated less than four million such workers available in July, 1941. With the present rate of increasing war activity it is clear that only a part of the labor needs can be met from this labor reserve.

The Bureau of Labor Statistics estimated that the first \$16.6 billion in defense contracts would require 8.3 million man-years of employment. Applying this crude ratio, the 225 billion in war contracts authorized by July 1, 1942, would require 112 million man-years of effort to complete. As increased volume results in improved efficiency, the relative number of workers needed may decrease unless offset by delays in retraining transferred workers.

How many additional workers may be needed in any one year depends, of course, on the proportion of the total war production which can be completed in that time.

In the spring of 1941 the Twentieth Century Fund published a study based on experience with the defense contracts initiated in 1940.⁸ It pointed out that work on contracts authorized in one year would necessarily be spread over several years, making it extremely difficult to estimate the number of workers needed in any year of the war effort. It

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predicted a peak of construction work early in 1942, a machine tool peak in 1942, and a peak of shipbuilding employment in 1943, with the timing of aircraft and munitions peaks depending entirely on the duration of the war.

This analysis of the probable shifts in the employment situation with the stepping up of the war effort remains essentially sound although made a year and a half ago—before the scale of the present war-production program was envisaged.

Contrasted with this picture as of 1940, mid-1942 reveals that the scale of war expenditures is vastly greater than anticipated. Construction of army cantonments proceeded about as estimated during 1941, ship construction was ahead of schedule, but general wartime industrial production was lagging. The lag was attributable partly to delays in plant construction, partly to lack of machine tools and equipment, and in some degree to shortages of skilled workers. Government confusion in planning and scheduling, combined with industrial management's reluctance to give up normal production, contributed to the delay in the program. Strikes and labor disputes occasioned some delay, although not as much as newspaper headlines would suggest.

It now appears that a much larger proportion of total industrial capacity must be devoted to the war effort than seemed probable in 1940. Reports from the War Manpower Commission⁹ indicate that in January, 1942, there were 7 million persons employed in war industry and 2 million in the armed services. As of April, 1942, the estimates were 9 million in war industry and 2.5 million in the armed services. On June 1, 1942, the Commission estimated our gainfully employed total as 55 million, consisting of 2.5 million in the armed forces, 3 million unemployed, 9.5 million in agri-

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culture, 9 million in war industry, and the balance of 31 million in normal industrial and commercial activities. In addition we possessed a potential reserve of 13 million workers consisting largely of women and youngsters under draft age.

Looking ahead, the Manpower Commission saw a need for 10 million more workers by January, 1943, with a total of over 20 million workers in war industry in 1944. Another 2.5 million men will be needed this year in the armed services.

Where are these workers and fighters to be secured? The Manpower Commission lists the following suggested sources:¹⁰

From peacetime industries	7,000,000 to 7,900,000
From the farm	400,000 to 600,000
From the ranks of the self-employed (professional men, etc.)	400,000
Unemployed	1,500,000
Housewives, youths, older workers, and others not listed as a part of the regular labor force	2,000,000

Aside from cutting into agricultural labor, the self-employed, and the professions, this program would reduce the working force for normal civilian needs to 22 or 23 million. Thus we face a situation by 1943 or 1944 involving nearly half of our working force and over half of our plant capacity engaged in the war effort.

Another shift is required in plans for labor resources. With the much greater drain on man power needed for the armed services, many women and others not usually in the labor market will necessarily be drawn into war production.

As of June, 1942, probably less than 1.5 million of the 3 million unemployed were available for work assignments in the defense industries. Moreover, as early as January, 1942, the United States Employment Service reported that

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the supply of qualified workers was sufficient for 168 occupations only out of a total of 538 defense occupations surveyed.

Certain industries, such as the vast automobile industry, have been entirely diverted from normal production and are being rapidly converted to the production of war goods. Even in such cases, where war production in the same industry is on a scale to employ as many or more workers as in peacetime production, there is an interval of several weeks or months of unemployment for the workers. The retooling and conversion process is time-consuming and the workers are victims of "labor market frictions" in the interval.

The net result of all these industrial dislocations is a sharp increase in unemployment—more or less temporary. In some cases the workers, with necessary training, go back to the same firm and industry. In other cases a more extended program of retraining is necessary to equip the individual for work in a new war industry. Of course some of the older and less adaptable workers lose out entirely and younger workers take the jobs opening up in war industry.

This situation seems to call for a combination of retraining facilities provided by industry and public educational agencies, with some tide-over payments for the displaced workers in the form of unemployment compensation and retraining benefits.

Probably more industries, however, face the more serious prospect of reduction of normal production due to priorities, with only a partial or no offset in the way of war contracts. In the necessities of the situation some war industries must be expanded and other industries curtailed—conversion or subcontracting is not always possible.

One of the unfortunate by-products of the conversion pro-

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gram is the destruction of many small businesses. Four-fifths of the prime war contracts let up to April, 1942, were held by one hundred concerns.¹¹ Thousands of small manufacturers will have to secure subcontracts or suspend operations. In the selling field growing scarcities of goods, rationing, price ceilings, and other restrictions bode ill for the small establishment.

The Department of Commerce has set up a "Small Business Unit" to help these enterprises survive, but the fact remains that the war is moving us more rapidly than ever toward large-scale business.

The acceleration of the war effort thus forecasts an even greater dislocation of the industrial system than was earlier anticipated, with an accompanying threat of major postwar unemployment and vast reserves of unusable productive capacity.

In a situation such as the United States now faces it is apparent that, unless strict controls are exercised, runaway increases in prices, coupled with great overexpansion of certain industries, may eventually result in a crack-up of major proportions with prolonged and profound unemployment inevitable.

A number of economists¹² point out that the severe downswing of industrial activity and employment may be postponed for several years after the conclusion of the war, as was true following the first World War.

The argument runs that there will be a sharp recession from war activity while industrial capacity and man power is readjusted from war to peacetime production. This period of unemployment will involve large numbers but will not be prolonged, corresponding roughly to the short postwar depression in 1920-21. Subsequently a postwar boom of

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great intensity is anticipated. This boom will be based on expanding consumer demand for a myriad of goods which were unavailable during the war.

It is particularly stressed that a major construction cycle was just well under way on the long upswing when interrupted by the war,¹³ and the housing needs have not been met. This construction boom will resume and extend to the essential reconstruction of Europe. A general boom period analogous to the late 1920's may result—supported by purchasing power reserved under various voluntary and “forced savings” plans such as social security provisions and investments in war bonds.

Eventually, however, a major depression comparable to the 1930's is considered inevitable, unless steps are taken to control both the wartime dislocations and the postwar boom. The severity of the anticipated depression would be well-nigh catastrophic and it therefore seems necessary to plan measures to prevent such a violent swing of the cycle. The placing of brakes on the upswing (in both war and postwar booms) will help, but, as we shall see in Part III, it will probably be necessary to make important changes in the normal distribution of purchasing power if we are to approach reasonable stability in our economic system.

Whether the major postwar depression will come immediately or be postponed a few years by an abnormal and unhealthy boom period, the repercussions will be less severe if we do something to control present wartime inflationary trends.

Under similar conditions Germany and later Britain began to exercise more or less rigid government controls of business activity to prevent disaster. What are the types of controls available? In a later chapter we shall consider in

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some detail the steps which may be taken to deal with such a situation. At this point it will suffice to indicate the kinds of regulatory and control devices which have been and are being used to try to keep the war expansion of the economy within bounds.

These include:

1. Price controls
 - a. Direct
 - b. Indirect, including restrictions on credit and installment buying
2. Restriction of production of nondefense items, particularly consumers' goods, by
 - a. Priorities or rationing of raw materials
 - b. Production quotas
3. Restriction of purchasing power for consumers' goods, by
 - a. Taxation
 - b. Rationing
 - c. Voluntary and forced savings

In all of this discussion it should be apparent that a war situation is unique only in that it causes a rapid and specialized expansion in economic activity and eventually the resultant downward movement is likely to be sharp also. Careful planning and control are necessary to counteract some of the extreme dislocations in the structure occasioned by the violence of the cycle and the shifts to and from war industries as contrasted with normal peacetime production.

Even at the peak of a tremendous war expansion there is a rather large residual of unemployment and unused plant capacity. After the entire cycle is completed we are back where we started—unless in the wartime upheaval the basic economic arrangements are changed in such a way as either to modify the fluctuations of the business cycle or to redistribute purchasing power in a manner designed to increase the effective utilization of available productive capacity.

CHAPTER VI

THE MALDISTRIBUTION OF PURCHASING POWER

CONCERNING the significance of the several causes of unemployment we have discussed so far, there is little disagreement among economists or among competent observers of our capitalistic system from any walk of life. However, concerning the relationships of the distribution of purchasing power to the problem of long-run unemployment there is little agreement! Moreover, such agreement as can be found among the authorities generally runs counter to the viewpoint we shall set forth in this chapter.

The reader, therefore, is entitled to fair warning that the economics of this chapter are unorthodox and he should arm himself by review of other and more commonly accepted views. David Weintraub in Part I, section V, of *Technological Trends and National Policy* offers an excellent and brief survey of this subject.¹

Much of the material on which this discussion is based is contained in the publications resulting from three important series of investigations: the Brookings Institution series dealing with the general field of Distribution of Wealth and Income in Relation to Economic Progress;² the studies of the National Resources Committee (since July 1, 1939, the National Resources Planning Board³); and the National Research Project 'of the Work Projects Administration,⁴ on which Mr. Weintraub's conclusions are based. The reader is urged to review these materials as a basis for understanding the facts of our rapidly changing economic life and as a check on the particular viewpoint herein expressed.

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Stated bluntly, it is our belief that the growth of a backlog of apparently long-run unemployment during recent decades is in large part due to a maldistribution of purchasing power which has the effect of preventing full utilization of productive capacity.

In Chapter I it was pointed out that there is a great disparity in the distribution of the national income, with the

TABLE II
PRODUCTIVITY, OUTPUT, AND EMPLOYMENT
Percentage Changes between Designated Years
IN MAJOR GROUPS OF INDUSTRIES
A. From 1923-24 to 1936-37

Item	Manufacturing	Mining	Railroads	Electric Light and Power	Combined
Productivity.....	+50	+89	+43	+111	...
Physical volume of output.....	+25	+12	-17	+141	...
Man-hours of employment.....	-16	-41	-42	+14	-22
Number of wage earners.....	+3.5	-14	-39	+36	-3.6

B. From 1923-24 to 1928-29

Productivity.....	+25	+32	+16	+31	...
Physical volume of output.....	+27	+16	+5	+71	...
Man-hours of employment.....	+1.8	-13	-10	+31	-0.7
Number of wage earners.....	+2.8	-5.8	-9	+41	+1.0

Source: Spurgeon Bell, *Productivity, Wages and National Income*, Washington, The Brookings Institution, 1940, p. 167.

poorest 20 per cent of the population getting less than 5 per cent of the income—in contrast with the wealthy 20 per cent, who receive more than 50 per cent of the total. We are immediately concerned, not with the justice of this situation, but with its effect on the volume and character of production.

Let us note, first of all, that during the period since the first World War the efficiency of production has increased much more rapidly than total output, with the result that a large volume of unused capacity is accumulating. Table II shows the changes in productivity (efficiency of production),

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in total output, in man-hours worked, and in number of wage earners from 1923-24 to 1936-37 in manufacturing, mining, railroads, and electric light and power.⁵

Total output increased only about half as much as productivity in manufacturing over the entire period and the result was a sharp decline in man-hours of employment. Shortening of hours kept up the number of persons employed, but even this figure showed a decline for all industries combined.

On the other hand, it will be observed that during the period 1923-24 to 1928-29, when total output in manufacturing kept pace with increased efficiency, neither man-hours of employment nor numbers of persons employed suffered any decline.

It seems evident that restriction of employment is due to the failure of the volume of production to increase in proportion to the increase in efficiency. This conclusion is substantiated by comparing the experience in the mining industry with that in electric light and power. In mining a large increase in efficiency is accompanied by only a small gain in output—result, a substantial loss in employment. In electric light and power the increase in total output exceeds even a large increase in productivity, with a resulting major increase in employment.

The problem, therefore, seems to be—why does the volume of production fail to increase rapidly enough to absorb the increased productive capacity? We believe that the answer may be found in the way the total national income is distributed and expended.

In Chart V in Chapter I it was noted that, while all of the small incomes were spent currently, a considerable portion of the larger incomes goes into savings and thus into investment

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in productive capacity. However, there are two correctives on such a tendency toward oversaving. The first is the increase in taxes, which both reduces investments from savings and increases consumer expenditures on the part of relief clients, workers on public work projects, social security beneficiaries, etc. The second is the decline in return on invested capital, which tends to discourage savings and encourage spending.

Another important consideration is the character of expenditures made by the different income groups. A glance at Chart VI in Chapter I reveals that the bulk of the lower incomes goes for necessities, in contrast with the luxuries and services secured in larger proportions by the well-to-do.

Over a period of years the emphasis on the production of luxuries and services has been increasing.⁶ It is startling to note that manufacturing employment has taken a downward trend since 1920, while trade, services, and clerical activities have greatly increased.

Recent studies by the Bureau of Labor Statistics⁷ show sharp contrasts in the relative productive efficiency of the basic industries (manufacturing, agriculture, mining, construction, transportation, communication, electric light and power) and the service industries (recreation, trade, professional, personal and public service).

As a matter of fact, these studies show that during the last three decades, while there have been increases of productive efficiency approximating 100 per cent in the basic industries, the gains in productivity have been very slight indeed in the service industries and in trade, running not much over 5 per cent.

Looking a little more closely at the changing trend, we discover that the increase of 16 per cent in total employment from 1920-29 was made up of an increase of only 3 per cent

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in the basic industries as compared with nearly 50 per cent in the service industries.⁸ As shown in Table III,⁹ 1935 employment in the service industries was 13 per cent above

TABLE III

Indexes of man-years of employment in basic and in
service industries, 1920-35

[1920=100]

Year	Total man-years of employment	Man-years of employment in basic industries	Man-years of employment in service industries
(1)	(2)	(3)	(4)
1920.....	100	100	100
1921.....	81	77	91
1922.....	87	83	96
1923.....	102	99	109
1924.....	101	96	114
1925.....	104	97	122
1926.....	103	100	126
1927.....	110	100	133
1928.....	111	99	138
1929.....	115	103	146
1930.....	106	91	141
1931.....	90	74	125
1932.....	73	59	106
1933.....	72	60	100
1934.....	79	65	111
1935.....	82	68	113

Source: *Technological Trends and National Policy*, National Resources Committee, June, 1937, p. 74.

1920, while in the basic industries a deficit of 32 per cent persisted.

It is even more important to observe, however, that, due to the much greater increase in efficiency in the basic industries, the decline in employment in those industries was at a more rapid rate than the increase in employment in the service industries.

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In Table IV¹⁰ it will be observed that of each 100 man-years of labor engaged in the production of 100 units of output in 1920, 70 were in the basic industries and 30 were in the service industries. On the other hand, in 1929 the 79

TABLE IV

Employee man-years per unit of total output, 1920-35

[1920=100]

Year	Total employee man-years per unit of output	Composition of total	
		Employee man-years in basic industries	Employee man-years in service industries
(1)	(2)	(3)	(4)
1920.....	100	70	30
1921.....	90	59	31
1922.....	79	53	26
1923.....	84	57	27
1924.....	81	54	27
1925.....	79	51	28
1926.....	81	52	29
1927.....	81	52	30
1928.....	78	49	29
1929.....	79	49	30
1930.....	85	51	34
1931.....	83	48	35
1932.....	83	47	36
1933.....	74	43	31
1934.....	74	43	32
1935.....	72	42	30

Source: *Technological Trends and National Policy*, National Resources Committee, June, 1937, p. 75.

man-years of work necessary to produce 100 units of output were distributed 49 in basic and 30 in service industries.¹¹ By 1935 only 72 man-years of effort were needed for 100 units of output, with 42 in basic industries and 30 in service enterprises. Another point of interest is that the "service"

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occupations within the basic industries also showed a relative gain in proportion of employment.¹²

What is the meaning of this great shift from "producing" to "servicing" activities in our economy? Is it that we have overproduced these basic goods and necessities and are now perforce turning to the refinements of living? How can we reconcile this viewpoint with the stark realities of poverty—of one-third of the people ill-fed, ill-clothed, ill-housed? Surely the human race has not reached its consuming capacity for these essential items!

As a matter of fact, we face the anomaly of dire poverty for a large section of our people while we have idle surpluses in the hands of others.

Let us look at the distribution of purchasing power and its possible effect on this shift. As we have already seen, the poorest 30 per cent of the people are unable, even with the aid of charity and tax-supported relief and benefit plans, to secure the needed amount of food, clothing, housing, and other basic requirements for a good standard of living. That they would greatly increase their purchases of these basic goods if they had more income seems clearly demonstrated by the fact that even those persons receiving average incomes (up to \$1250) spend all of them—largely for such necessities.

Since most necessities of life represent goods with an "inelastic" demand, a change in price will not materially alter the amount purchased so long as the present distribution of incomes continues. In other words, the poor spend as much as they can for these items since they must have them even at the sacrifice of comforts and desired services, and the well-to-do have a large surplus of purchasing power over and above securing all of these goods they desire.

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The only chance for a material increase in the volume of such necessities purchased would result from an increase in the lower incomes so their full desires and needs could be satisfied in these matters.

When it comes to the things we may call comforts—those goods which make up the difference between bare existence and our boasted “American standard of living,” with its radios, automobiles, clothes, amusements, and pleasant homes—an even sharper contrast is noted between the income groups.

These are so-called “elastic” demand goods in large part, which means that a small change in price will greatly modify the amount purchased. Thus a decrease in price which will put these goods within the reach of lower income groups will enormously increase the consumption of such items.

The difficulty now lies in the fact that the “center of gravity” in our income distribution is too high, resulting in an underemphasis on the production of necessities and comforts (the goods produced by the basic industries) and an overemphasis on services and luxury goods. The unfortunate thing is that this shifts purchasing power into the least productive and least efficient industries with the smallest “multipliers” in the way of additional goods and increased national income.

To reduce the problem to simple terms, let us say that the “typical” income which controls the market demand for goods and services is now \$1500—although the actual average income is \$1250. What this means is that the weight of the higher incomes is so great as to lead the producer to seek the higher-priced market, even with limited volume of output, rather than to lower prices as much as would be necessary to secure large-volume purchases by the poorer people.

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Nevertheless, since mass purchases of necessities are made, the relatively low prices of such goods leave the persons with "typical" or better incomes with considerable surplus purchasing power, with which they encourage and secure various services and refinements of life.

Suppose, on the other hand, a redistribution of purchasing power should shift part of the surplus incomes from the wealthy to the poorer classes. Under such circumstances the "typical" income would be lower—probably about the "average" or, let us say, \$1250.

The reductions which occurred in the upper incomes would affect particularly savings, luxury goods, and services—rather than comforts and necessities—while it seems clear that the increases in the lower incomes would go for necessities and what we have called "comforts"—industries of the greatest productive efficiency. Under such circumstances the producer would find his greatest source of profits in lower price and large volume—with a resultant increase in total production and national income.

In other words, such a readjustment would seem to result in the greatest efficiency in our productive mechanism and an emphasis on large volume of output which should minimize unused capacity and unemployment.

In this discussion we have been talking entirely in terms of consumers' goods industries. However, the producers' goods industries are in large part tributary to and dependent upon the "basic" consumers' goods industries (necessities and comforts) rather than the services and luxury-producing industries. The producers' goods industries have shown great increases in productivity and their stimulation would again create many "multipliers" favorably affecting the volume of production and the size of the national income.

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Here, then, are the facts. There has been a growing unbalance in the distribution of income between the poorer and the wealthier groups. At the same time there has been a shift from basic industries to service industries, which means a shift from highly efficient and productive industries to less efficient enterprises. Unemployment and idle productive capacity (largely in producers' goods and basic consumers' goods industries) has likewise increased in proportion.

We find, also, that larger incomes have always placed more emphasis on securing services and luxuries than have smaller incomes, and it seems more than a coincidence, therefore, that a growth of unemployment in basic industries accompanies this change in the distribution of purchasing power. It should follow, we believe, that a redistribution of purchasing power which would stimulate the production of goods and the lowering of prices should materially contribute to the reduction of unemployment.

In suggesting a shift in purchasing power as a stimulant to the full use of productive capacity, we are thinking in terms of total incomes of the poorer sections of the population and not in terms of wage rates.

We have examined this factor in the unemployment situation in some detail because it seems important if true. It means, we believe, that even if we plan well in our efforts to minimize the effects of business fluctuations we face an increasing problem of unemployment, unless we can successfully readjust the present distribution of national income to correct the restrictive effects of an unbalanced market demand. The steps necessary to secure this essential redistribution of purchasing power comprise the subject matter of Part III.

PART II

THE ATTACKS ON RECURRING UNEMPLOYMENT

CHAPTER VII

INDUSTRIAL PLANNING

MOST of the causes of unemployment which have been considered so far may be thought of as recurring rather than persistent, some of them in the form of rhythmic movements, such as seasonal change and depressions, others occurring more or less frequently and irregularly, such as technological changes, shifts in international trade, or wartime upheavals.

The next few chapters will review the current proposals for smoothing out these peaks and valleys in business activity and minimizing the disastrous effects of these recurring causes of unemployment.

One logical way to discuss these suggestions is to review the proposed remedies for each type or cause of recurrent unemployment, such as seasonality or technological changes. There may be some gain in clarity, however, in approaching the analysis from the standpoint of the various agencies or institutions which can do something about the problem. Accordingly note will be taken of what industry can be expected to do, and the role of governmental agencies both in "normal" times and under wartime stresses.

Let us first consider the possibilities of management action to counteract the fluctuations in employment under so-called "normal" conditions; i.e., in periods not affected by wartime activities.

It is clear that a part of the total volume of unemployment traceable to irregularities in the volume of production is due

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to faulty management. In such cases it is obvious that improvements can be achieved by industry directly. Moreover, there are other instances where individual management is not responsible for idle capacity and unemployment, but where recognition of the problem and analysis of possibilities may lead to corrective action by industry which will be very beneficial.

The potentialities of corrective action are probably greatest in the reduction of seasonal fluctuations in employment. As a matter of fact, much has been done in the United States to demonstrate the possibilities of regularizing industrial production to cut down seasonal fluctuations and to some extent cyclical fluctuations as well.¹

The great variety of these efforts at stabilization indicates their feasibility in many industries; but the proportion of industrial workers affected by such efforts is as yet small, offering room for considerable gains along these lines.

In general, industry has tried three ways of reducing seasonal unemployment: the selling approach, production scheduling, and the sharing of work.

One of the first efforts made by industry to regularize employment was to stimulate slack-season sales. A variety of methods has been used. Some firms sponsor a special advertising program during the slack season, pointing out special uses of their product during the "off season" or listing advantages which accrue to a buyer from an early purchase, such as better service, better price, or better quality. Others, selling a varied line of products, shift the attention of the sales force to those commodities which have special seasonal appeal during the slack period.

A scheme used to some extent by the General Electric Company² is to give higher commissions to salesmen during the

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slack seasons. During the dull seasons some firms introduce new models and novel items to stimulate buying, while granting free services or a certain amount of free merchandise to off-season buyers has at times proved effective.

Another method of stabilizing employment has been to offer inducements for the placing of advance orders, which in turn can be scheduled to balance the production program. Some firms secure advance orders by promising to defer dating. Others offer special discounts on purchases prior to a certain date, and the provision of more definite assurance of delivery and quality in return for advance orders has been used by some companies. Frequently, moreover, a manufacturer is able to buy raw material cheaper during the off season.

In addition to selling techniques many firms have approached the task of stabilization from the production angle, diversifying the product, producing for stock, and other types of production scheduling.

Certain establishments have been able to develop a side line which can act as a filler when the season for their main product is slack. This is desirable from the point of view of stabilization if the machinery and workmen which are used in the production of the side line can be used in the manufacture of the main product.

A variant of this practice involves taking on contracts for other manufacturers during slack seasons. The subcontracting of war orders should do much to stimulate this practice.

Sometimes it is possible for a company to make up certain standardized parts of the final product during the slack season. The remaining parts are made and the assembling is done in the rush season. Of course simplification and standardization of products greatly reduce the risk of such pro-

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duction in advance of orders. In this connection some manufacturers have instructed their salesmen to push the stock items or the staple items in preference to the items more dependent upon style, and as a result it has become easier for the manufacturer to produce for stock. Another device has been to confine sales largely to a few large customers for whom it is easier to forecast what the production ought to be.

The essential principle behind most of the plans involving the scheduling of production is to maintain stable employment while permitting the inventory to fluctuate. In slack times an inventory of finished goods is built up, and during the peak season production is continued at the same even rate while the accumulated stocks are drawn upon to satisfy the demand.

Estimates and actualities as to production, sales, and inventories must be subjected to constant scrutiny to see that enough will be produced without accumulating an oversupply. Two good illustrations that can be given of firms which have worked out such a scientific production program are the Procter & Gamble Company of Cincinnati, Ohio, and the Eastman Kodak Company of Rochester, New York.³

Most of the other plans for regularizing seasonal employment are based on the principle of "sharing the available work." These schemes range from the simple expedient of using regular production workers on maintenance and repair work during slack seasons to elaborate co-operative plans involving several firms.

During slack seasons a large number of firms have reduced the number of days worked per week, or the number of hours per day, distributing the employment available among all the employees instead of giving full employment to a few and laying off all the rest.

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An illustration of co-operative employer action designed to spread work was a plan operated by five companies in Fond du Lac, Wisconsin, starting in September, 1930.⁴

The main features of the Fond du Lac scheme were:

1. The parties to the agreement agreed to hire workers laid off by one of the other companies wherever possible.
2. If no work was available, the employee was paid 65 per cent of his average wage for not more than 100 working days by his own employer.
3. An employee must have worked for a firm two years before he was covered by this plan.
4. Benefits did not begin until an employee had been out of work fifteen days.

If a number of firms whose peaks of employment came at different seasons of the year, and whose employees possessed about the same degree and type of skill, could form such an agreement it is conceivable that by dovetailing employment much seasonal unemployment could be eliminated.

Careful review of industrial experience with seasonal fluctuations reveals that more variations are caused by unnecessary shifts in the size of dealers' and jobbers' stocks of goods than by changes in volume of purchases by consumers. Here, certainly, is an area where it has been demonstrated that industry can take effective corrective measures.

Where the consumer has to be educated the problem is more difficult. As noted in Chapter II, there are some consumer buying habits rooted in tradition and belief (Christmas, Easter, etc.) which cannot be altered in appreciable degree. Others, such as style habits, are difficult to change and still others offer only limited resistance to an advertising and educational campaign designed to regularize the market. An example here is the date for introducing new annual automobile models. Perhaps we should say here *was* an example!

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Not all industries, of course, can successfully prosecute regularization policies. Aside from differences in management interest and capacity, it is evident that standardized goods industries are most amenable to such programs.

Moreover, the movement for seasonal stabilization will offer steadier employment for regular employees but will, if successful, create more unemployment among the "reserve" labor which was previously employed during peak seasonal periods. Nevertheless, a net gain for society would be recorded by regularizing as much of the seasonal employment as possible. This would serve to stabilize the incomes of the regular force and would focus attention on the problem of the completely "unattached" reserve force. Some gain in operating efficiency should accompany regularization.

It should also be possible for management to take some steps which will help to minimize the effects of the business cycle on employment. Advertising as a means of stabilizing the cycle has many advocates in the United States.

Many industrialists believe that consumer demand can be stimulated during depressions, thus speeding up recovery. Some firms have been willing to accompany this practice with a proportionate reduction of advertising in prosperity periods and have actually stabilized their sales. Unfortunately, however, the usual tendency is just the reverse and advertising probably increases the severity of the swings of the cycle. The advertising business, like most others, "gets what it can while the getting is good," and expenditures for this purpose vary with the cycle. It is probably not much easier to change management's habits in buying advertising than it is to change consumer buying habits.

Installment selling, like advertising, could be made a useful management device for leveling out prosperity-depression

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cycles—but, again, it actually has had the reverse effect. Consumer attitudes lead to larger installment sales in prosperous periods, frequently adjusting the scale of purchases to peak incomes—with the inevitable result that not only do sales drop off in depressions but payments default in large proportions, causing cumulative difficulty.

Another suggestion, which has worked well where tried, is for industry to budget its capital and plant expansions for depression periods, restricting such activities in good times. This calls for wise long-run planning, which is all too seldom exercised but which society has a right to expect from industry. As a matter of fact, because of the continuity of private management, particularly in larger business organizations, such wise long-run planning should be easier than similar planned programs on the part of government agencies.

Aside from the advantages to labor in more regular employment, the fixed expenses would be lower under such a policy—items which are increasingly important in modern industries, particularly such enterprises as the public utilities, railroads, and heavy producers' goods industries.

Turning to those aspects of unemployment which are related to technological change, business failures, and other "labor market frictions," the role of industrial management planning is not so obvious; but it is nevertheless an important one.

Re-employment of workers who have been dislodged by these changes in the industrial machinery depends in large part on expanded activity in new occupations and industries. Industries which are unfavorably affected by market changes can do little to solve the long-run employment problems of their former workers. They doubtless have a responsibility to do a better job of tiding them over the period of readjust-

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ment through provision of dismissal wages and similar devices. Reserves for obsolescence of acquired skills should be set up, just as similar reserves are provided by wise management for obsolescence of plant and equipment. Admittedly an inadequate job has been done in this area.

Nevertheless, industry's greatest contribution in these instances is made by the prosecution of research activities which constantly explore new processes, new products, and means of increasing productivity in established enterprises. The expansion of production and of employment during the century and a half of our national history is in large part due to the aggressive and intelligent search for such outlets on the part of industrial management.

On this point the optimism of some industrial leaders is well warranted and represents sound social policy. It is only when business leadership overestimates these potentialities as automatic solutions of all social and economic problems that their optimism becomes wishful thinking.

One of the most constructive viewpoints with respect to the potentialities of industrial research as a contribution to future economic progress is expressed by Charles F. Kettering, Director of Research for General Motors, in a recent article from which we quote the following paragraphs:⁵

Much has been accomplished in the past few years by organizing our scientific thinking, by analyzing what the controlling problem is and bringing together such groups of technicians as are necessary to solve the different parts.

We are now in a transition period from the ineffective attic inventor to the well-organized industrial-research laboratory. Already we have evidence that organization has made for faster progress in the industrial program, but there still remain certain practices of the old regime that must be eliminated before the group can operate with utmost effectiveness.

We have yet to get away from the early development of new

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industries on the basis of profit or loss, the basis of return on capital. We must think of it as the development of something in which faith, in which the rightness of the thing, becomes the important consideration. We must feel that if a thing is right nothing can stop its success. . . .

We must treat research as an insurance policy. . . . We can consider a large number of projects and arrive at the average cost . . . for some which run off the track and fail to accomplish anything new, we can expect a few to meet with success.

If society is to progress, the obsolescence factor must be better understood. In this one great task of creating sufficient work to give every person a chance to trade labor for a living, we must speed up obsolescence; we must indoctrinate ourselves with the belief that no article should be kept off the scrap pile longer than it takes to provide a better article.

It is not wasteful to scrap old machinery when it becomes outmoded. Real waste is suffered when we refuse to scrap our outmoded ideas of thrift. We are due for great advances in almost every realm. Almost every product of every kind is being improved and is being cheapened in price. . . .

Man can make everything he wants. The wants must be stimulated, for the world moves more by striving to satisfy wants than by filling its actual needs.

We need a new idea of what constitutes well-being. . . . I want to find out why grass is green. Some little engine in the green of the grass and the leaves has the gift, unknown to man, of capturing energy from the rays of the sun, storing that energy, building with it. Thence came, in ages past, all the heat and power now stored in coal, in wood, in oil, in natural gas. Solve that secret and we shall know how to take energy from the sun. Master the secret and we may have a way to free the process of photo-synthesis from the growing plant, a way to build engines to transform enough radiant energy from the sun into heat, chemical energy or electricity to run our machinery. . . .

Most of all I want to get a glimpse of what we are going to consider a state of well-being next year, five, ten and twenty years from now. Believing in the philosophy that the true function of man is to make straight the way that nature makes jagged and uneven, I want to get more of an idea of the direction in which progress is tending. For there are certainly infinite possibilities before us in every realm, if we can only learn the essential steps necessary to realize them.

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It is of interest that Mr. Kettering is now serving as the chairman of the National Inventors Council of the Department of Commerce—guiding the application of new technological developments and inventions to the war program. It is to be hoped that this pooling of technical talent will be continued and later devoted to the problems of peacetime industrial expansion. Here Kettering expresses the true spirit of American industrial progress, the driving force behind great economic achievements.

Just as Kettering has emphasized the importance of the shift from conquest of the physical frontiers to conquest of the scientific frontiers through research and planning, so we may make bold to suggest that industry in the future must also give attention to research and planning in the field of distribution of the benefits of production and in the stabilization of employment.

Recurring unemployment may not be too high a price to pay for industrial progress—if that price is necessary. So far it has been assumed that it was inevitable and society has “let the chips fall where they may.” Certainly serious analysis of the possibilities of minimizing these heavy costs to society should be undertaken, while preserving the incentives for progress. The alternative may well be a social demand for new economic arrangements which offer some security—even at the cost of restricting industrial development.

Industry itself has a major stake in undertaking research into methods of stabilizing employment and incomes. Not merely its current prosperity but its very independent existence may depend on an improved solution of this problem. Moreover, there is no room for pessimism as to the possibilities. Management, which has developed a superb industrial

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system and faces new technical problems with equanimity, should not flinch from tackling a problem which is relatively unexplored.

The difficulty seems to be that management has an open mind toward scientific and technical change but a fearful and closed mind on matters of income distribution and security for the working class. All too frequently prejudice and fear replace the inquiring mind when such subjects are introduced.

In a later chapter this subject will be explored further and some suggestions offered for constructive action on the part of industry in planning the attack on this problem of income distribution—action which if boldly taken by industry may lessen the necessity of government controls.

CHAPTER VIII

GOVERNMENT PLANNING

It is apparent that, because of the complex and interdependent character of economic relationships, industrial management can exercise effective control over but a limited number of the conditions causing unemployment.

No single industry can operate independently of others, and consequently even the best kind of planning job done by concerted action within an industry cannot achieve stability. Instances may occur in which it is clear that certain action by the management of an industry would be beneficial, but their competitive relationships to other industries make it difficult if not impossible to act independently.

What is true of industries is true also, in large part, of individual firms within an industry. Short of complete monopoly or common agreement, action by one concern is necessarily conditioned by similar action on the part of competing establishments.

Moreover, the dangers to general consumer welfare which are inherent in the creation of machinery for joint action by all units in an industry give pause to the encouragement of industry-wide planning. Certainly when the idea of a superplanning or control device to co-ordinate the action of several industries is proposed, the threat to consumer interests has been such as to lead to strong public resistance. The plain fact seems to be that the general public is unwilling to trust the job of interindustry co-ordination and nationwide economic planning to private industrial management.

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The alternatives are either a continuation of unplanned and unco-ordinated industrial activity partly competitive and partly controlled through combinations and monopolies or an increase in government planning and control.

There seems to be little likelihood of any decrease in government regulation and control of economic activity, and under such circumstances there is an overpowering argument for long-run government planning. The prospect of a planned government economy, or rather of government planning of the development of the economy, may not be appealing to many, but the prospect of increasing government regulations and controls over business activity which are unplanned, unco-ordinated, and in many respects conflicting and contradictory is much worse.

A realistic appraisal of current trends both in this country and abroad leads to the conclusion that the choice is between these two latter alternatives. As long as political democracy persists, the working classes and the lower two-thirds of the income groups are likely to use government action to try to improve their economic well-being. They have learned in recent years that they constitute a voting majority and they intend to use that instrumentality. It is apparent, therefore, that wise government planning is an essential development of the economic future.

There are several ways in which government can contribute to the orderly reduction of the fluctuations in employment. One of the first requisites of intelligent government action is the development of a research and planning agency of sufficient prestige and competence to command general public support and thus to exercise controlling influence on legislation and government policy.

The essential beginnings of such planning agencies are

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found in the National Resources Planning Board at the federal level and the various state, county, and municipal planning boards and councils which have increased in number and effectiveness in recent years. So far these planning agencies have concentrated their attention largely on activities related to public works programs and the conservation of natural resources.

Some of them, however, notably the National Resources Planning Board, have begun to make basic research studies and to encourage and co-ordinate similar studies by other government agencies. Typical of these fundamental studies which are providing the background for analysis of our economic problems and a basis for policy formation are:

1. *The Structure of the American Economy*—National Resources Committee
2. *Technological Trends and the National Policy*—National Resources Committee
3. *National Research Project on Reemployment Opportunities and Recent Changes in Industrial Techniques*—Work Projects Administration
4. *National Consumers Project*—Bureau of Labor Statistics
5. *Investigation of Concentration of Economic Power*—Temporary National Economic Committee

The National Resources Planning Board has gradually extended its activities to include some co-ordination of the research and planning activities of other federal agencies and has performed a similar function for the various regional, state, and local planning bodies.

Doubtless it is desirable that the influence of a research and planning agency should develop gradually through public recognition of the competence and value of its activities, rather than through a legislative fiat which would attempt to place such an agency in a controlling position with respect

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to policy. Any effort to establish such controls would encounter two serious obstacles—strong and well-founded resistance to a move which would transfer policy control from the elected representatives of the people to a group of “expert planners” not directly responsible to the electorate and, secondly, the great difficulty of defining the appropriate sphere of such an agency. This latter difficulty is in some respects the more serious, since flexibility and experimentation are essential to evolve a practical working relationship between the planning agencies, the legislative bodies determining policy, and the administrative agencies executing the programs based on determined policy.

One of the strengths of American democracy has been its capacity to experiment informally with new relationships and activities before crystallizing these activities into specific legislation and agencies for administration.

Among the functions which could profitably be discharged by such a planning agency are the following, most of which are now being carried on in part or are contemplated as desirable by the National Resources Planning Board and other related planning agencies.

1. It should serve as a clearing house of information on employment stabilization techniques.

In some cases this function is already provided and the central planning agency would merely list the activity, refer inquiries, and promote the use of the services of the appropriate agency. Illustrations include the work of the Bureau of Standards in analyzing inventions, new products, and mechanical techniques; the activities of the Department of Agriculture in promoting crop diversification and a balanced use of soil resources; or the application of occupation analysis

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and job classification techniques developed by the United States Employment Service.

Where a need exists for disseminating information on methods for attacking problems (such as the regularizing of industrial production, or the ways in which local communities have met relief or public work problems), the central planning agency either may perform these clearance functions itself or may undertake to promote such activities on the part of the agency or agencies best equipped to serve the need.

Just as lack of job knowledge contributes to the unemployment of the individual worker, so lack of organized information as to workable methods and techniques is responsible for part of industry's failure to do all that could be done, both to minimize employment fluctuations and to develop new employment opportunities. An effective clearance service for such information could contribute materially to sound managerial planning on the part of industry and of local government units.

2. A second major function of the central planning agency should be the promotion of basic research, private and public.

In the article quoted in Chapter VII Kettering has appropriately emphasized the great significance of technical research in the development of industry. Of equal if not greater importance is research into the broader problems of economic policy. We have a magnificent producing machine, capable of great further development, but we are not fully utilizing that productive machine and we are botching the job of distributing the benefits of production to serve human needs.

We need to dig into the facts of our economic system, to find out if we can what makes it work and why it slips and

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misses a cog so frequently. Wherever private facilities for competent and impartial research are available their use should be encouraged and their results co-ordinated and made available through the good offices of the planning agency.

Industry offers possibilities of practical research involving both scientific technology and managerial methods which cannot be duplicated elsewhere. The government planning agency should encourage and utilize such industrial research wherever its scientific competence is assured. Industry, if it takes the long view, should encourage the full utilization of its own research findings. The temporary competitive gains from restricting the use of such information seem likely to be more than outweighed by the long-run growth and strengthening of industrial activity which result from full use of technical knowledge.

Universities and other nongovernmental and nonindustrial research agencies have a peculiarly valuable contribution to offer. Free from the limitations of cost-profit calculations on the one hand and of political policy considerations on the other, these agencies can best undertake the longest-run and most highly experimental types of research activity, which are often the most significant.

The tendency in recent years for research workers from the universities and related agencies to rotate between "applied assignments" in industry and government service and their "cloistered laboratories of pure research" is a healthy and hopeful sign. The researcher gains insight into the applications and uses to be made of the techniques and research results, while industry and government learn the value of objectivity, of the experimental approach, and of concentration on the long-run interests.

Government agencies likewise have an important role in

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research. They are free of cost-profit limitations although subject to legislative limitations of function and other restrictions imposed by political policy. Nevertheless, a governmental agency views the economy as a whole rather than a particular industry or group, and within the limitations of prescribed function—its objective is the promotion of general public welfare.

Moreover, the research laboratory available to the government agency is usually extensive in scope. For example, the Department of Agriculture in studying soil possibilities may select experiment stations in any part of the country; or the United States Employment Service in studying occupational requirements may check on industries in several typical areas throughout the nation, rather than being limited to a single plant, a single industry, or the particular location of a university or research agency.

The point just mentioned emphasizes the advantages which a federal agency possesses over a state or local agency in the same field when it comes to basic research. Each of the latter possesses some of these advantages, however, in comparison with single-unit research agencies such as those of an industrial firm or a university.

With the vast array of new government agencies, each trying to feel its way toward sound policy and practice, much duplication and lack of co-ordination of research activity results. The central planning agency has a responsibility not merely to promote but to try to control and co-ordinate the research activities of all of these agencies both private and public.

3. One of the major functions of such a planning agency is to provide a summary or digest of pertinent data for the consideration of legislative and other policy-making bodies.

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A vast accumulation of unco-ordinated research material is useless to the busy and practical legislator or administrator. It must be organized, digested, and presented in logical manner so that he can consider its pertinence to the problem of policy he must decide. Public policy in these days is so frequently economic policy that we need to have much factual economic data marshaled into understandable form for the policy makers to consider in discharging their activities.

Illustrations of the type of synthesized surveys of information suggested are:

1. *The Older Worker in Industry*—a study of New York State manufacturing industries, made by the Commission on Old-age Security for the Joint Legislative Committee on Unemployment, Albany, 1933
2. *Technological Trends and National Policy*—National Resources Committee, Washington, 1937

We have deliberately emphasized the functions of a central government planning agency because none of the various government efforts to aid in the reduction of unemployment can be effective unless they fit into a broad plan of co-ordinated action involving industry and government agencies. Some such planning agency is necessary to make any sense out of the program as a whole. Otherwise, contradictory policies may defeat the whole effort and disrupt the economy.

Beyond planning, however, lie several forms of government action which bear on the problem of reducing recurrent unemployment. Four aspects of government policy will be considered in this connection:

1. Government relief programs
2. Planned programs of public works
3. Social insurance
4. A nationwide employment exchange system

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The social insurance approach and the development of a public employment service will be discussed in separate chapters.

Government relief for the unemployed has now become an accepted public policy. No party or major group in our society challenges the necessity of providing relief and none now believes that adequate relief can be provided through private or voluntary channels without government aid. The debate has simmered down to questions of the amount needed, administrative efficiency, and the governmental jurisdictions which should discharge the function.

All students of the problem stress the huge size of the government relief load in the past decade and the great variety of agencies and channels through which the needed assistance has been provided. To visualize the complexity of administrative machinery involved in this program it must be realized that the single item of state and local relief involves scores or even hundreds of separate agencies which must be fitted into the financing, certification, and administrative setup.

No doubt much of the complex and shifting character of the relief machinery in the 1930's was the inevitable by-product of initial experimentation with a new and tremendous task from the point of view of the federal government. Part of it also was due to the effort to preserve the usual local machinery since public opinion held tenaciously to the view that the temporary emergency load would soon pass, permitting an early return to "normal procedures."

This same public attitude may be charged with some of the responsibility for early ineffectiveness in the nature and operation of work relief projects. What were regarded as temporary emergency agencies with a month-to-month appro-

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priation could not, and indeed were not permitted to, take the steps necessary to plan and execute a sound program of work useful to the communities and suited to the talents and capacities of the unemployed persons needing relief. As time changed this public attitude and contributed to the experience of the relief agencies a better job was done, both administratively and in the work and relief programs themselves.

Nevertheless, in spite of noteworthy accomplishments,¹ the relief picture still is blurred and leaves much to be desired in terms of unified direction, planned objectives, and co-ordination with other activities bearing on the reduction of unemployment.

The relief program reaches only a portion of the unemployed, especially in a depression period. Moreover, the persons served are the "residuals" who are not reached by other programs, such as the regularization of industry, planned public works, improved organization of the labor market, and social insurance. The residual group varies tremendously in volume with changes in business activity, and its needs, therefore, can never be so carefully planned and provided for as in other programs.

Another point noted earlier is that the relief load which increases so tremendously in depression periods is only in part an unemployment problem in the sense of job loss. It is to a considerable extent a problem of inadequate incomes. The persistence of a large relief load in periods of great business activity is in no small part due to this factor.

Perhaps the most important consideration is to tie the relief program into the general planning so that it will retain the essential flexibility to take up the slack not covered elsewhere and to assure that it does not duplicate or "compete" with these other parts of the program.² In pre-Hitler

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Germany this essential co-ordination was achieved by having relief work grants handled by the employment exchanges, which also supervised labor assignments to public works, unemployment insurance, and placement in private jobs.

The problem of more effective co-ordination of the relief activities with the other aspects of the attack on unemployment is an extremely difficult one. Thus the creation of the Federal Works Agency and the inclusion of the W.P.A. with the other public works agencies in this new setup promote effective integration of work programs from the point of view of engineering planning and avoiding duplication of projects.

Nevertheless, the same step divorced the W.P.A. from other relief, assistance, and rehabilitation agencies with which it had earlier had closer associations, such as the N.Y.A., the C.C.C., the Office of Education, the United States Employment Service, and the Social Security Board (all now in the Federal Security Agency), as well as from agencies in other departments, such as the Farm Security Administration in the Department of Agriculture.

This points up the fact that essential co-ordination cannot be automatically secured by a reorganization or reshuffling of government agencies. Any such shift improves certain relationships and severs others. In the effort to get all "related agencies" under one huge tent there is a risk of diminishing returns from units of organization too large to be effective. Moreover, the gains in new relationships are always offset to a greater or lesser degree by the destruction of valuable existing relationships.

Perhaps the key to proper co-ordination of related functional activities of a variety of agencies lies in a centralized planning machinery which evolves a consistent program for

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the policy makers to consider. Once a program is adopted, a policy control committee consisting of administrative officers of Cabinet and other major rank can assign responsibilities to the several agencies involved and maintain supervision of the general program.

Certainly the government cannot continually be reorganized to meet the demands of whatever functional problems are of current importance. Flexibility in organizational structure and sufficient decentralization of responsibility to avoid the paralyzing influence of a huge superstructure of "review and approval" are essential to even moderate government efficiency.

To be specific, it is more important to have technical and administrative competence, coupled with freedom to act, in the heads of operating agencies such as the Bureau of Public Roads, the P.W.A., and the W.P.A., or the Office of Education, the N.Y.A., and the United States Employment Service, than it is to have superadministrators as the heads of the Federal Works Agency or the Federal Security Agency.

The truth is that the Federal Works or Federal Security Administrator cannot co-ordinate all the functions of the several agencies under him, since they have many relationships to agencies not under his jurisdiction. Consequently an over-all planning agency is necessary and the Chief Executive needs a number of assistants or liaison men to aid in co-ordinating the entire governmental policy program.

On the other hand, the effort of the great agency administrators to understand, co-ordinate, and control the activities of the included agencies inevitably creates a superstructure of review and approval which hampers the working efficiency of the operating agency. It is doubtful if the effort to lump the numerous government agencies under a few large "public

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holding companies” contributes enough in clarification of policy to offset the increase in overhead red tape. What has been said of federal agencies is true in lesser degree of state and local government units.

Planned public works offer another line of government attack on recurrent unemployment, particularly depression unemployment.

As in the case of relief programs, the history of public works in this country in recent years is sporadic and opportunistic to an unfortunate degree. There was no opportunity for advanced planning of the public work projects and consequently many were not too well suited to the employment needs of the communities where they were carried on.

Considering the magnitude of the program and the absence of prior planning, however, it is generally agreed that an excellent technical job was done by the agencies engaged in what is usually called “regular” public works (in contrast with work relief activities, such as F.E.R.A., C.W.A., and W.P.A.)—notably the P.W.A., the Bureau of Public Roads, the Army Corps of Engineers, etc., as well as certain state and local public works programs.³

Such public works, consisting chiefly of the construction of needed public improvements (roads, bridges, tunnels, dams, electric power facilities, public buildings, etc.), have two objectives—to provide facilities to meet essential public needs and conveniences and to provide useful employment for both man power and industrial productive capacity.

To be of maximum value in reducing unemployment such public work projects should be planned to cover long periods of time and controlled so that they are greatly restricted in volume during periods of large business activity and quickly expanded in periods of depression.

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There is just as much to be said for leveling out private construction activity as for public works (even more because of its greater volume). The point is that private construction, responding to the profit motive and to competition, fluctuates sharply with the business cycle—while public construction, not so influenced, can be planned as an offset.

A number of suggestions have been made for accomplishing the necessary controls to make public works activity serve such a purpose. One of the most interesting proposals is advanced by four industrialists—suggesting long-run public works planning and a “flexible budget control,” to release the public work projects as unemployment increases in depression periods.

The proposal is summarized in the following paragraphs:⁴

The successful operation of the policy here proposed calls for two pieces of governmental machinery—the Employment Office and the Flexible Budget. The Employment Office is necessary to keep us currently informed in regard to the amount, location, and character of unemployment with which we have to deal. The Flexible Budget is necessary to release government expenditure and employment in proportion to the need. The first is in an early stage of development in this country; the second is a new and undeveloped extension of governmental budgeting.

Probably the great bulk of employment will be brought about in the future, as in the past, through multifarious unorganized agencies and procedures by which men have found jobs and employers have found workers. It is not the function of a public employment office to interfere with or replace these procedures and private agencies when they work satisfactorily. It is necessary, however, that there be a system of public employment offices to supplement these informal methods, so that workers wanting jobs and unable to get them by more direct means, and employers wanting workers, may register their needs and may be brought together through the systematic procedure of a widespread agency.

The Employment Office should, moreover, be the one place at which men qualify for unemployment benefits. Thus the Employ-

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ment Office, when fully developed, should have on its records the names of all unemployed workers, because that agency will be the final avenue to work or, failing that, to benefits.

In the discharge of these two functions the Employment Office will accumulate the information about unemployment which is essential for our plan. Through it we must be informed accurately and currently in regard to the amount of unemployment, its location, and the character of work for which the unemployed are fitted. It appears to be the one agency through which this information, essential to the smooth working of our economy, can be regularly and dependably secured. . . .

Having determined the amount of unemployment, its character and location, and having decided on the critical figure which when exceeded calls for governmental action, the next step is to provide for that action so that it shall be prompt and appropriate in amount. Promptness is vitally important because in the downward phases of the business cycle unemployment tends to be cumulative. Under the ordinary form of budget and legislative appropriation the need for additional governmental activity can be met only by additional legislative action, which for our purpose is too slow and cumbersome. To meet the situation we suggest a modified form of budgeting and legislative appropriation, which we call the "Flexible Budget." . . .

The budget officer will be asked to present the usual normal minimum budget for each department and subdivision. He will be asked to supplement it with detailed and carefully considered plans for such expansions of activity as could be made from time to time as called for. The budget will then show a minimum total figure for cost of operations and an additional one for desirable additional work. Both the minimum figure and the additional one would, of course, be subject finally to the usual Congressional determination. The most satisfactory forms of legislative action would be to appropriate the minimum figure as usual, and the additional one subject to the condition that its expenditure should begin only after the critical figure of unemployment had been passed and should increase by steps related to the amount of unemployment. The legislation should prescribe the critical figure or a method of determining it. The Flexible Budget would thus include advance authorization of expenditures in excess of the minimum budgetary allowances and the necessary appropriation, so that the volume of such expenditures will vary from time to time in ac-

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cordance with the amount of unemployment. The scope of the legislative and administrative requirements of the proposed policy may be briefly indicated. The necessary legislative measures include:

1. Approval of a supplementary budget
2. The authorization of expenditures under it, contingent on unemployment
3. Specification of the amount of unemployment at which contingent expenditures shall start
4. Specification of the relationship to be maintained between amount of unemployment and rate of expenditure
5. Specification of the proportion of the supplementary expenditures which will be appropriated to the states and their subdivisions for increasing employment
6. Specification of the methods by which Federal money shall be used in the states and of the conditions which states must meet to receive it

The executive branch of the government should be required to hold the total amount of supplementary expenditure in the prescribed relation to the amount of unemployment. It should, however, be given full discretion in regard to the departments and localities in which the extra work is to be undertaken, so that it may, on the one hand, make the projects as socially useful as possible and, on the other, choose them so that they will meet the needs of the unemployed. It is obviously desirable that projects be accessible to those who need work and suited to their training and skill.

The machinery for planning public works programs to cover several year periods is now quite well developed. The Federal Works Agency, comprising most of the federal agencies concerned with the problem, is doing an excellent job from the point of view of co-ordination of activities and engineering planning. The National Resources Planning Board and its affiliated regional, state, and local planning bodies have provided background material concerning needed improvements and the conservation of resources.

Moreover, the United States Employment Service, which the proposal charges with the responsibility of providing in-

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formation concerning the state of the labor market, is rapidly reaching a state of competency to handle such an assignment.

The crux of the plan, however, is the acceptance of the idea of "flexible budget control" as public policy. Assuming that Congress would accept such a general policy as desirable, as we believe it should, we agree with the authors of the proposal that a control committee with representatives from the key agencies is preferable to the creation of a new agency to administer the plan.⁵ Such a procedure accords with the principle of flexibility in policy control and decentralization of operating responsibility to specifically qualified agencies. It should be recognized, of course, that the most effective functioning of such a planned program of public works would relieve only a portion of the unemployment occurring in a depression period.

Public works employment is limited in two directions. Only a certain volume of public work improvements is economically desirable within a limited period of time; it is quite possible to divert too large a proportion of the national income into such channels. In the second place, only a limited proportion of the unemployed are suited to the types of jobs (mostly construction) which result from a public works program. An effort to make construction workers (or research specialists) out of all the unemployed is unwise both from the point of view of efficient work and from the point of view of conserving the skills and capacities of the individual workers.

Many individuals and agencies concerned with the problem of potentially vast postwar unemployment have been advocating similar programs of planned public works as a necessary protective measure. A new feature of many of these current plans is the advocacy of a continuing program of

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public works expenditure rather than merely a depression "fill-in." This is a recognition that the long-run problem of unemployment is steadily growing and is not entirely a depression phenomenon. Thus A. H. Hansen in the brochure *After the War—Full Employment*,⁶ prepared for the National Resources Planning Board, urges a continuing expenditure of a sizable portion of the national income by the government for public works and welfare purposes. Mordecai Ezekiel⁷ in a recent series of articles and John Bauer in his book *National Welfare and Business Stability*⁸ advocate similar programs.

While the emphasis which these advocates place on the need for planned public works is constructive and important, it may well be that they are going farther than is necessary or wise in depending on continuous government expenditures to support full employment. Such a program assumes that the economic system cannot be readjusted to absorb the bulk of the unemployed in private industry.

As indicated in Part III, we believe it is possible, through a more efficient distribution of purchasing power, to reverse the long-run trend toward increasing unemployment and offer extensive new employment opportunities in private industry.

CHAPTER IX

ORGANIZING THE LABOR MARKET

IN THE review of the factors causing unemployment many labor market frictions were noted—instances where lack of information concerning available jobs or workers prevented employment or where the necessity of changing industries or occupations involved delay and difficult readjustments.

In such cases improvement depends on better organization of the labor market, largely through the development of an effective nationwide system of employment exchanges. The average American has had little experience until very recently with the functioning of a public employment service and probably does not comprehend the significance of such an agency in the way Europeans have become accustomed to it. Partly because of this lack of public understanding of such an agency's functions and partly, no doubt, due to the writer's tendency to stress an activity with which he has been closely associated, the functions of a public employment service in reducing labor market frictions will be examined in considerable detail.

As a background for considering the possibilities and limitations of such a service it may be worth while to summarize briefly the history of public employment services in this country.¹ Employment services fall into three groups—public employment offices, private agencies not established for profit, and private agencies conducted as a business.

Figures on the number of private agencies in the United States do not exist; but the total number of private agencies

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probably exceeds the number of public employment offices, although they are concentrated largely in the big cities. Abuses in the operation of fee-charging agencies have led to the enactment of legislation by municipalities and states to regulate their licensing, bonding and fee-charging, premises, and other matters of management, to prohibit specific abuses and to provide for inspection and penalties. At the present time forty-two states have legislation which directly or indirectly regulates the conduct of private employment agencies. The legality of such restrictive legislation has been before the courts in several instances. According to existing decisions of the United States Supreme Court a state may license and regulate private agencies but cannot prohibit their operation altogether nor fix the amount of their fees.

In 1933 the International Labor Organization adopted a convention providing for the elimination of private fee-charging employment agencies.² While this convention has so far been ratified by only five countries, it is indicative of a trend which may soon lead to serious consideration of such legislation in this country.

In addition to private agencies conducted for profit, placement facilities are also provided by various philanthropic organizations, trade unions, and associations of employers. Agencies for the placement of professional workers, such as teachers and nurses, are also numerous. They may be operated free of charge or on a fee basis, and often provide a valuable service for limited groups.

The growth of the public employment service in this country since 1933 has been so much more significant than in the preceding periods that there is an inclination to date the real beginnings of the Service from the passage of the Wagner-Peyser Act in June, 1933. In many respects that is

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inaccurate. It is true that the state and municipal employment services in existence before 1933 were spotty and, with a few exceptions, of mediocre or poor quality. But it is also true that most of the employment service ideas and techniques which have been expanded in recent years had their roots in programs that began earlier than 1933.

There are a number of state employment services which have a long history of continuous operation. The services in Ohio (1890), New York (1896), and Wisconsin (1901), to mention only a few, run back for four or five decades. Most of these earlier state employment services were in the eastern and northern states, but there were some in every section of the country.

The federal government entered the field in 1907, when a division of information to advise immigrants on employment opportunities was set up in the Bureau of Immigration. Soon after the outbreak of the First World War immigration practically ceased and the immigration offices were changed into employment offices and were grouped in eighteen employment zones. A Farm Labor Service was also created. In 1918, because of the need of better facilities to service the American war effort, the employment offices were separated from the Bureau of Immigration and the United States Employment Service was established in the Department of Labor, with the states as the operating units. Early in 1919 the Service comprised 854 local offices and its annual budget exceeded \$5,500,000.

With the passing of the war emergency Congress drastically curtailed the appropriation of the Service, and its activity was largely restricted to the placement of veterans and farm workers. The federal government continued to operate some employment offices and maintained a co-operative arrange-

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ment with state and municipal agencies. For these, however, it did little more than provide standard forms and the franking privilege. In general the offices were ineffective because of meager appropriations, poor quarters, and inefficient personnel.

Several efforts to enact legislation in Congress to co-ordinate federal, state, and local services were unsuccessful. Such a measure passed Congress in 1931 but was vetoed by President Hoover. Congress then voted an appropriation to the Labor Department which resulted in an enlarged federal employment service with offices in every state. In many instances the federal offices were established in competition with state agencies and it was quite apparent that political considerations rather than the provision of an efficient service were paramount.³

The failure of the effort to promote a co-ordinated federal-state program in the decade of the twenties led to the establishment of certain foundation-supported employment office demonstration programs in 1931 and 1932.⁴ There were four such centers established at Rochester, New York; Philadelphia, Pennsylvania; in the three cities of Minneapolis, St. Paul, and Duluth, Minnesota; and at Cincinnati, Ohio. Out of the Rochester, New York, experiment station came a recognition of the importance of attractive employment office layouts and a demonstration of effective use of modern office routines and procedures. The Philadelphia program experimented with the organization of employment service work along the lines of major occupational divisions. From the Minnesota program, which was in some respects the most extensive demonstration, came a renewed emphasis on the importance of advisory councils, with the beginnings of a program of occupational research and the use of tests and

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personnel selection techniques in public employment offices. The Cincinnati center conducted valuable studies of the opportunities for absorption of workers in the community and experimented with the classification and assignment of workers on relief projects.

The Wagner-Peyser Act passed in June, 1933, re-established the United States Employment Service as a bureau in the Department of Labor charged with the responsibility for developing a national system of employment offices for men, women, and juniors and maintaining a placement service for veterans, farm labor, and the District of Columbia. To assist in co-ordinating public employment offices the Employment Service was authorized (1) to develop and prescribe minimum standards of efficiency, (2) to promote uniformity in the administrative and statistical procedures of employment offices, (3) to publish information on opportunities for employment, and (4) to maintain a system for clearing labor between the states.

The development of the Employment Service in the past nine years might be divided into three periods—a period of great growth in size and scope of the Service from 1933 to 1936, a period of more intensive qualitative development from 1936 to 1939, and a period of transition from 1939 to 1942.⁵

From 1933 to 1936 the physical growth of the Employment Service was amazing. At the beginning of that period there were only 129 offices in the larger cities of some 24 states, with a total staff of approximately 500. By the end of 1936 there was a nationwide employment service structure, predominantly comprised of the affiliated state employment services although supplemented by the offices operated by the National Reemployment Service.

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It was apparent in the summer of 1933 that the state employment services did not have an adequate number of employment offices and were not sufficiently well organized to meet the requirements of the federal emergency work program. Accordingly the National Reemployment Service was established under the direction of the United States Employment Service, to refer workers to federal and state emergency work projects in states with no employment offices and to supplement the work of the existing offices in other states. This Service was financed through funds provided by the Federal Emergency Administration of Public Works, the Federal Emergency Relief Administration, and later by the Works Progress Administration and other emergency organizations. Supplementing its support from the federal emergency funds, the National Reemployment Service had the co-operation and assistance of many state relief administrations, counties, municipalities, and other local agencies. At the peak of its operations (1935) the administrative costs of the National Reemployment Service were at the rate of about \$17,000,000 annually, of which more than 90 per cent was supplied from federal sources. This contrasts with a figure of approximately \$7,000,000 available in the same year under the terms of the Wagner-Peyser Act. Of the latter amount \$4,000,000 was from federal funds and \$3,000,000 consisted of matching state funds.

During its history the National Reemployment Service rendered important services in the classification and referral of workers to the Civil Works Administration, the Public Works Administration, and the Works Progress Administration, as well as to other regular public work agencies of the government, such as the Bureau of Public Roads and the Army Engineering Corps.

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Beginning in 1936, as the state services were expanded for their part in the administration of unemployment compensation, the facilities of the National Reemployment Service were contracted. Many of its offices and part of its staff were absorbed in the state systems and this emergency service was discontinued on June 30, 1939.

The period from 1936 to 1939 presented an opportunity for the qualitative development of the Service. There was some further physical expansion as availability of Social Security Board funds made possible replacement of the National Reemployment Service emergency activities and further expansion and stabilization of the state employment services. At the same time considerable attention was given to the development of the operating plans of state employment services. Efforts were made to stabilize local office organization by setting minimum standards of premises, staffing, and procedures.

There was general acceptance of the merit system of qualifying personnel in all state services after some early difficulties. This achievement represented one of the major accomplishments of the United States Employment Service, since it was secured despite the lack of specific authorization in the federal Act. The basic success of the merit system promoted by the United States Employment Service laid a groundwork which made possible the extension of the merit system principle into broader fields of federal-state relationships as the Social Security Act came into operation. During this period a program of statistical reporting of important activities of the employment services was standardized, making available for the first time a current record of the job seekers of the nation.⁶

One of the significant developments in this period is rep-

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resented in the various phases of the Occupational Research Program. Occupational information was accumulated on a vast scale, both nationally and locally. Job descriptions for many industries were produced nationally, supplemented by similar descriptions developed locally by state employment services for many more occupations and industries. As a capstone on the national development of occupational information, the *Dictionary of Occupational Titles*⁷ published in 1939 presents in concise form a first approach to information about all types of occupations. Nearly 30,000 job titles covering 17,500 distinct occupations are defined and classified.

Considerable attention was given to the development of occupational tests and special selection techniques. Many of the larger employers, of the type who have their own well-developed personnel departments, were beginning to utilize the facilities of the Service, as a result of the development and application of these special selection techniques in the employment offices.⁸

During 1938-39 a new emphasis was placed on the development of junior placement and counseling services.⁹ For two or three years the National Youth Administration had co-operated in the development of counseling and placement divisions for juniors in 100 to 150 offices scattered throughout something more than half the states. This activity has been very largely taken over and expanded so that at the present time there are over 300 offices with special junior counseling and placement facilities. Particular attention has been given in these offices to the use of occupational information and counseling techniques.

Service to the physically handicapped applicants has likewise been given more attention. Co-operative efforts with the

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Vocational Rehabilitation Division of the Office of Education have resulted in improving the working relationships between state employment services and state rehabilitation agencies. Special studies of the suitability of certain types of work opportunities for individuals with particular handicaps have been made.¹⁰

The past three years have been a period of transition and adjustment for the Employment Service. The President's First Reorganization Plan transferred the United States Employment Service from the Department of Labor to the Social Security Board on July 1, 1939. The Employment Service was consolidated with the Bureau of Unemployment Compensation of the Social Security Board to form a new agency called the Bureau of Employment Security.

The Social Security Act has greatly increased the responsibilities of the public employment offices. The portions of the Act dealing with unemployment compensation required that, in order to qualify both for the administrative grants provided for in the Act and for the certification of their laws under its tax-remission features, the State Unemployment Compensation administrations must make provision for the payment of benefits solely through public employment offices or other approved agency.

The advent of unemployment compensation gave rise to many difficult problems for the state employment services. Some state authorities proceeded on the theory that the two functions of placement and unemployment compensation should be separately administered and vested the two activities in different departments or divisions. Others felt that these functions should be closely integrated.

On the national level serious problems arose by reason of the location of employment service in the Department of

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Labor and unemployment compensation in the Social Security Board. A major difficulty derived from the inadequacy of the employment service funds for the expanded organization required for unemployment compensation administration. As emergency funds available through the National Reemployment Service declined, recourse was had to the moneys provided under the Social Security Act for administrative grants to the states for unemployment compensation. As a result of the transfer of the Employment Service and its merger with Unemployment Compensation, some duplications and conflicts of authority between the two formerly independent federal bureaus have been eliminated. Certain energies which were utilized in competition are now being devoted to co-operative effort.

There have been some difficulties, however. The involved procedural mechanics—which may be an inevitable by-product of a large integrated program such as that of the Bureau of Employment Security and the Social Security Board as a whole—complicated the problem of relationships and in many instances almost eliminated direct contact between the states and the federal staff working on employment service problems and policies. Some persons, including the writer, felt that a more effective co-ordination of these two activities might have been secured by transferring the Bureau of Unemployment Compensation to the Department of Labor.¹¹

The writer believed that close integration of the two activities—Unemployment Compensation and Employment Service—should be provided by placing them in the same department under a co-ordinator, such as an assistant Secretary of Labor. He was opposed, however, to a complete merger of the two distinct functions into one bureau or agency with

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the elimination of the name and identity of the employment service.

An employment service was a recognizable concept in the public mind and considerable good will had been developed for that name and concept. Similarly unemployment compensation or unemployment insurance was a clear-cut idea in the public mind. These two concepts, and indeed these two titles, have been common throughout the leading industrial nations in the last two or three decades.

Events have proved that a local office of a state department of employment security was not a clearly identified agency in the public mind and the complete unification of the two activities created many administrative difficulties.

Following several internal reorganizations, the Bureau of Employment Security re-established the name United States Employment Service for the employment service division in 1941. By executive order in December, 1941, the United States Employment Service was federalized—thus again separating the employment service activity from the unemployment compensation function, which remained federal-state in its operating relationships. The new co-ordinating official carried the two titles of Director of the United States Employment Service and Director of the Bureau of Employment Security. Some further clarification of these relationships is necessary, but the essential identity of the United States Employment Service has been re-established.

In Chapter XI the activities of the United States Employment Service in serving the war effort are described in some detail.

In the nine years of operation (down to July, 1942) the United States Employment Service has handled a huge vol-

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TABLE V
APPLICATIONS AND PLACEMENTS, JULY, 1933-MARCH, 1942

Offices of	Number of New Applications					
	1934	1935	1936	1937	1938	1939
State employment services.....	3,445,553	1,922,566	3,365,513	2,390,715		
National Reemployment Service.....	9,189,421	2,214,446	2,897,675	1,485,857		
Combined services .	12,634,974	4,137,012	6,263,188	3,876,572	6,546,134 ¹	6,587,309
Number of Total Placements						
State employment services.....	1,551,096	898,793	2,557,963	2,369,204		
National Reemployment Service.....	5,481,392	2,275,858	3,221,536	1,862,601		
Combined services .	7,032,488	3,174,651	5,779,499	4,231,805	2,900,056	3,134,011

¹ National Reemployment Service and state employment services figures not separable for 1938 and 1939. N.R.S. ceased operation June 30, 1939.

² Estimated. Figures for new and old applications not separable.

³ Social Security Board Report, 1941.

⁴ Estimated. Figures for new and old applications not separable. Preliminary. July, 1941, to March, 1942, only.

⁵ Preliminary. July, 1941, to March, 1942, only.

TABLE VI
ANALYSIS OF PLACEMENTS, JULY, 1933-MARCH, 1942

Placements	Number of New Applications					
	1936	1937	1938	1939	1940	1941
Private employment.....	1,160,244	2,100,606	1,962,765	2,225,114	2,991,772	4,639,299 ²
Public employment.....	1,751,724	1,846,269	894,745	876,423	545,136	
Relief employment.....	2,867,531 ¹	284,930	42,546	32,474 ²		
	5,779,499	4,231,805	2,900,056	3,134,011	3,536,908	4,639,299

¹ W.P.A. and relief.

² Relief figures not available after June, 1939.

³ No breakdown as to public and private employment after January, 1941.

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ume of applicants and a steadily increasing proportion of placements in private industry.

Table V shows the number of new applications and placements made by the offices of state employment services and the National Reemployment Service by fiscal years since the Wagner-Peyser Act went into effect.

Table VI presents for the last seven fiscal years an analysis of placements by private and public employment and relief employment.

As of July 1, 1942, there were 1471 full-time employment offices and 3121 part-time or itinerant points, with a total office personnel of 17,060.

Having thus reviewed the development of the public Employment Service in the United States, let us now analyze the functions which such a service can perform in relation to the problem of reducing labor market frictions.

A nationwide public employment service is essential to any plan for the effective organization of the labor market. Such an employment service is the operating mechanism in the labor market analogous to the stock exchange in the security market or the commodity exchange for agricultural products.

Without in any way interfering with freedom in the adjustment of the supply and demand for different kinds of workers, it is essential to the orderly handling of the labor problem that a mechanism exist for recording and classifying the location, personal qualifications, and occupational skills of the available workers as well as the number, location, and requirements of the available jobs. It should also provide a channel for regulating the flow of qualified workers into such jobs.

An employment service is essential to the performance of

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these functions whether the jobs involved are in private industry or in public enterprises. As a result of its performance of this basic function in the labor market, a national employment service system should be in a position to yield pertinent information with respect to employment conditions and opportunities and the characteristics of the labor supply. Such information is essential to the planning and administration of public works programs, to the administration of unemployment compensation, and to the development of vocational guidance and occupational training.

An employment service cannot create jobs; it can, however, reduce labor turnover and minimize occupational maladjustments through effective placement. It can create essential flexibility in the available labor supply through a clearance system providing geographical mobility of skilled workers. By an occupational readjustment program it can promote interindustrial mobility of labor, thus facilitating rapid reabsorption of workers from obsolete trades in certain industries into related newer opportunities.

In the following discussion an effort will be made to set forth the writer's views with respect to the proper functions of an employment service and the kind of organization needed for the discharge of these functions. Throughout the discussion the statements of objectives will be accompanied by brief summaries of the present status and achievements of the United States Employment Service in the respective phases of activity.

I. The primary function of a public employment service is to facilitate an orderly handling of the labor market in private industry. In a simple, pioneer type of economy where nearly all markets are limited to the community, there is little need for any organized machinery to bring the workers

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and jobs together. Employers are familiar with the number and qualifications of the workers in the community, and the workers in turn are familiar with the available jobs and job requirements.

In our modern, complex economic society, mass-production methods, specialization of labor, and the broadening of markets in general create a situation in which employers cannot know the number, location, or skills of the available workers and the workers in turn have only limited knowledge of the jobs available, particularly those outside their own immediate communities. Some central machinery for clearing the market is needed to overcome these difficulties.

Specifically, what must a public employment service do to accomplish this objective?

A. From the employer's viewpoint, the employment office can render four services.

1. Establish and maintain effective contacts with industry.

The public employment service must become well and favorably known to the rank and file of employers if they are to comprehend its economic functions and its possible advantages to them. In certain countries where a national public employment system has been in operation for a period of years, its position and functions are recognized by the employing group. The rather unsatisfactory experience with many of the state public employment office systems prior to 1933 meant that the present United States Employment Service started with an almost complete lack of employer understanding of the functions and possibilities of such a service. Some progress has been made in employer understanding during the past nine years, but the early absorption of the major energies of the Employment Service in servicing emer-

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gency government activities, such as W.P.A. and P.W.A., and the rather limited publicity given to its organization and efforts mean that the major task of creating employer understanding of the Employment Service functions is yet to be done. The large part the Service is playing in organizing the labor supply for the war effort is bringing the agency to the attention of many employers previously ignorant of its facilities.

Further progress calls for a carefully controlled program of providing public information and particularly for an effective system of personal field visits by competent representatives of the Employment Service to individual employers, acquainting them with the nature and possibilities of the Service. Of even greater significance is the development of a program of follow-up on placements and original contacts to correct errors and to continue the education of the employing group with respect to the Service.

2. Gain and share knowledge of job requirements.

If the Employment Service is to be successful in gaining employer confidence and improving the character of placements in private industry, it must have accurate information with respect to the requirements of the jobs to which referrals are being made. The Employment Service is a community personnel organization. It is making selections and referrals, not to a few hundred jobs in one industry, but to thousands of occupations in all types of business enterprises and industries. No matter what its previous experience or background, the Employment Service personnel cannot be personally familiar with the job requirements in these thousands of jobs. It is essential that industry co-operate in making available to the Employment Service complete and accurate in-

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formation with respect to the requirements and possibilities of the jobs to be filled.

It is equally essential that the Employment Service hold up its end of this co-operation with industry by making such job information available in understandable form and by training the personnel in its effective utilization.

Important beginnings have been made by the United States Employment Service in this task. The Occupational Research Program, conducted under the sponsorship of a Technical Committee with members designated by the National Research Council and the Social Science Research Council, and operating with both private-foundation and government funds, has made careful job analyses of all the occupations in several industries.¹² It is thus making available both to the employment office personnel and to co-operating industries standard job descriptions and definitions for the occupations with which the Service is dealing.

The continued production of these materials and the maintenance of their current accuracy by co-operation between local operating offices and employers is essential to an effective placement job in private industry. To that end local employment office personnel in all the states are being trained in the use and maintenance of these materials.

3. Facilitate mobility of labor.

At any given time the available labor supply presents at least local shortage conditions in the upper brackets of skills. With the great demand occasioned by the war program such shortages are numerous and severe. In order to minimize the dislocations resulting from lack of geographic mobility, the Employment Service should maintain an effective nationwide clearance system so that job openings calling for par-

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ticular skills in any section of the country can be filled by qualified workers available at any point in the United States.

In the absence of a nationwide clearance machinery, shortages of certain types of skilled labor may exist in one section and surpluses in another. While such maladjustments might be corrected in time in the absence of a clearance mechanism, considerable savings both to industry and to workers can be achieved through creating a maximum degree of geographic mobility for such skilled workers. The war emergency has speeded the development of a nationwide clearance system which is now working with reasonable efficiency.

There is another phase of mobility of equal importance to both employers and workers; namely, interindustrial and interoccupational mobility at those levels of occupational skill where a limited amount of retraining would qualify workers who have had experience in related lines of work. The job studies referred to above reveal that at the semiskilled and unskilled levels, particularly, there are many jobs carrying entirely different titles in different industries which when carefully analyzed have essentially similar requirements. If this is true it should be possible for a qualified employment service organization to identify those unemployed workers whose present training and occupational experience are so closely similar to the job requirements of positions which are opening up in other lines of industry as to make their useful employment a matter of brief retraining and readjustment. Such interoccupational and interindustrial mobility would promote stability within a community and within a region. It would minimize unnecessary geographical mobility and make for the most effective occupational adjustments.

In addition to the job description material now being de-

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veloped which has a bearing on this problem, studies of the characteristics of successful workers in certain occupations (making up a part of the Occupational Research Program) are beginning to yield supplementary data of value in selecting those individuals best qualified for such occupational readjustment.

4. Provide employment information.

While the applicants registered at the public employment service will perhaps never include all unemployed persons who are actively seeking work, it may be anticipated that, with the increasing recognition of the Employment Service as a major channel for private placement opportunities, its extensive use in referring workers to war industry, its use as a referral agency for public jobs, and its function as an administrative agency for unemployment compensation, the proportion of the unemployed who maintain active registrations with the Employment Service will increase. Experience of European countries, such as Great Britain, Germany, and the Scandinavian countries, indicates that a full-fledged employment service performing the above functions maintains sufficient registration of the unemployed to make the employment information available from such source of great significance.

Even at the present time the so-called "active file" of the Employment Service includes a large proportion of the unemployed who are in search of work. Proper statistical and reporting techniques should make available information with respect to the existing labor supply, its location, personal characteristics, and occupational skills.

To serve the needs of industry for reliable information concerning the available labor supply, provision should be made to secure at least the most essential of these facts concerning the available labor supply on a current basis.

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B. From the worker's viewpoint also, the employment exchange has important contributions to make. These include the following:

1. Maintaining efficient interviewing and applicant contacts.

As in the case of the employer, the Employment Service, if it is to perform its major economic functions, must have the confidence and continued co-operation of all qualified applicants who are seeking work.

The past performances of the public employment services have not encouraged highly skilled, professional, and white-collar types of workers to maintain continued relationships with such services. It is probable that the emergency activities of the present Employment Service organization have served to blur the average applicant's conception of the important relationships of the Employment Service to private industry. Because the bulk of placement opportunities available through the Employment Service during the first few years of operation were of a public character, a major effort must be made by the Service to insure the applicant's proper understanding of the major functions of the Service.

Of greatest importance in securing this co-operation is the provision of adequate facilities and competent personnel for handling the applicants, both in their first and in their subsequent contacts with the office. Present facilities are in most places inadequate. The personnel is limited in number. Moreover, since the whole employment service field represents a new type of work opportunity, few of the present staff members have had previous experience in this work.

A major training program for the development of a competent professional personnel and provision of instructions and working tools are essential.

2. Development of sound occupational classifications.

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The confidence of the workers in the Employment Service will increase as they secure jobs for which they are well fitted. This necessitates a thoroughgoing job of occupational classification on the part of the interviewers. In addition to information about job requirements, interviewers must be equipped to determine the qualifications of the worker. This means that the training background, personal history, and, particularly, the work history of the applicant must be secured, carefully recorded, and verified. Any available tools to measure capacities, abilities, and skills of the workers to supplement this work history should be utilized.

Attention is now being given to the training of interviewing personnel in the proper methods of classification. One phase of the Occupational Research Program is an effort to analyze the qualifications of successful workers in various occupations to see if it is possible to find measuring sticks or selective devices to supplement the work history in predicting probable success in an occupation. Over fifty-five thousand trade questions have been secured and are being standardized and made available to the interviewers as aids in determining the nature of an individual's experience.

Some studies have been made in the retail selling field and in various clerical and mechanical occupations to determine whether available occupational aptitude tests have any practical application in this process of selection and classification. Controlled application of certain of those tests which seem to be significant in distinguishing successful workers is being made in a few offices. This movement, if properly controlled, should yield results of value in improving placement and should offer information of significance to the vocational guidance movement and in the planning of training programs.¹³

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3. Facilitating mobility of labor.

A clearance system for creating geographical mobility in skilled labor and the development of interindustrial mobility of labor through occupational readjustment are of equal significance to the worker and the employer. An effective clearance machinery assists materially in reducing the length of unemployment of workers and prevents the training of surpluses of workers in occupations which tend to be seasonal in character. Employers, on the other hand, benefit in not having to stop production processes while waiting to procure qualified workers.

4. Providing employment information.

To the worker also a program for the provision of reliable employment information is of importance. Information with respect to the nature of placement opportunities which are opening up, their location, and job requirements is of obvious significance. Studies of occupational and industrial trends in placement opportunities which may be built up over a period of time should be of importance particularly to the younger worker facing problems of vocational choice.

5. Service to special groups of applicants.

There are a number of special groups of applicants which seem to call for particular attention on the part of the Employment Service. Such groups include the juniors who characteristically lack work experience; physically handicapped persons, including the disabled war veterans; and migratory farm workers. The traditional approach to the problems of these special groups has been the creation of a special division within an operating employment service.

While there is much to be said for the development of particular techniques for meeting the unusual problems presented by these various groups of applicants, it may be doubted that

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the creation of special divisions for registering, classifying, and attempting to place these persons in private industry is a desirable practice. Such practices frequently produce two undesirable results: first, somewhat indiscriminate placement of applicants in occupations or positions for which they are not entirely suited as a result of a sympathetic attitude on the part of certain employers or the action of pressure groups; second, a tendency to restrict the placement of special-problem applicants, such as the physically handicapped or inexperienced juniors, to working opportunities with employers whose social viewpoint leads them to consider the needs of these workers.

Sound public policy would seem to be served better by careful attention to the special needs of these workers and the utilization of special techniques to arrive at a proper occupational classification of such workers. Once such a classification is reached, the individual can best be handled as a normal worker within that particular occupation where his handicap or special problem has no bearing. In this way his occupational opportunities are broadened and the placements made are in terms of occupational fitness.

Progress has been made by the present Service in this direction. The Wagner-Peyser Act requires that special service be provided for veterans, physically handicapped persons, juniors, and farm workers. In the case of veterans, instead of creating a special division in the operating offices, the United States Employment Service has appointed special staff officers in each state whose responsibility it is to train the entire personnel in the special-problem techniques affecting veterans and to see that the needs of this group are adequately considered.

Similarly with respect to the other groups—juniors, farm

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workers, and physically handicapped persons—special staff officers attached to the state administrative staffs in areas where the problem is acute are training the local personnel in the nature of the special problems and the use of special techniques for the proper classification and handling of these types of applicants.

Only a small beginning has been made in the development of the junior service and that for physically handicapped persons along the above lines. Experiments are under way in a few centers, but considerable further attention should be given to this problem.

II. Service to government agencies is an important responsibility of an employment exchange system. With the growing acuteness of the problem of wartime labor supply, the Employment Service is now rendering service to no less than thirteen major government agencies ranging from the War Production Board and the Army and Navy to the Office of Civilian Defense and the Civil Service Commission. From the long-run point of view four such services should be stressed, including those relating to a public works program, a work relief program, the administration of unemployment compensation, and assignments to training work.

A. Service to public works programs.

Consideration of any planned public works program designed to extend over a period of years suggests three functions to be discharged by the public employment service.

1. Planning information.

One of the criteria which should be considered in planning a program of public works is the nature and extent of the available labor supply. The Employment Service should be in a position to provide two types of information with respect to the available labor supply. First, on the basis of

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its current records, it should be able to indicate growing shortages or surpluses of labor in the various occupations. While the projected existence of a shortage in an occupation should not be conclusive in determining the setting up of a project calling for such labor, it should indicate the nature of the labor problem to be faced and the particular occupations for which training provision should be made. In the second place, when projects are actually scheduled, the Employment Service should be in a position to make available current information with respect to the immediately available labor supply, its geographic location, occupational skills, and other data.

The present statistical program of the Service is capable of adjustment and expansion to take care of these needs. A periodic inventory of the workers in the active file would yield not only the information immediately needed for the administration of scheduled projects but also the basis for measuring occupational trends in the labor supply.

2. Selection and referral of workers.

The second function of the Employment Service in relation to a public works program should be the selection and referral of all persons needed on public works projects. Only through some central personnel machinery can the regulations governing labor requirements on projects be uniformly and effectively administered. Experience in the past nine years has demonstrated the necessity and value of such service.

It is doubtful if through any other mechanism the regulations which, at various times, specified local residence as a prerequisite, veterans' preferences, relief status preferences, assignments of identification numbers for pay roll purposes, and numerous other administrative details could have been administered. While the machinery creaked in places, the

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evidence presented by the emergency government employers—W.P.A., the Bureau of Public Roads, P.W.A.—and by private contractors on government projects indicates the value of the employment service in handling selection and referral of workers to all such projects.

3. Creation of flexibility in the labor market.

As in the case of servicing private industry it is essential to the conduct of the major public works program that there be geographic mobility in skilled labor, such as provided in the clearance system of the Employment Service, together with the maximum degree of flexibility in occupational adjustment.

B. Service to work relief agencies.

Assuming a major planned program of public works and limitation of work relief to types of temporary employment, essentially of a character to minimize competition with private industry, it may be questioned whether the Employment Service should exercise any immediate function in the work assignment of relief recipients. It should be noted that the primary basis of selection for such work—namely, “need”—is a type of qualification concerning which the Employment Service is not equipped to pass judgment. It is clear, however, that all individuals engaged in temporary work relief should maintain active registration with the Employment Service offices in order to be available for any regular work opportunities for which they are qualified, either in private industry or in the planned program of public works.

As a by-product of the registration of relief recipients and their classification for private employment opportunities, occupational classification information may be made available

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to the relief or public welfare administration for its guidance in making assignments to work relief projects.

In addition the registration and proper occupational classification of relief recipients enable the employment service to designate persons wholly unqualified for either private industry or project employment. This information is of value to agencies administering to the needs of individuals unable to be self-supporting.

The experience of the Employment Service with the work relief program during the past few years substantiates the viewpoints here set forth. In those instances where the Employment Service organization took a major part in the assignment of relief recipients to work relief projects (as in the case of the C.W.A. and the early history of the W.P.A.), there was a tendency to identify the Employment Service with the work relief program, to the disadvantage of the Service in its relations with private employers and with the better class of nonrelief applicants. Every precaution should be exercised to avoid such identification in the public mind.

C. Relation to unemployment compensation.

It is generally assumed that the Employment Service should discharge two major functions in the administration of a program of unemployment compensation.

1. Registration of unemployed workers.

In the first place, registration of workers both for Employment Service purposes and for establishing eligibility under the Unemployment Compensation Act should be in the Employment Service. It is clear that, for the convenience of the worker and to avoid confusion, unemployment compensation facilities and Employment Service facilities should be so housed as to avoid duplication of effort on the part of the

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worker and to promote efficiency in the necessary relationships between the two organizations.

Moreover, it is essential to impress upon the worker that the item of most importance is the *job*. Unemployment compensation is merely an aid to the worker in getting over a period of unemployment. His first obligation, therefore, in case unemployment occurs, is to utilize the available facilities for securing a job. His registration at the Employment Service serves to emphasize the primary importance of the job-getting activity. This registration requirement is now universal and is working to advantage.

2. Certification.

The other major function of the Employment Service in relation to unemployment compensation is the certification that an individual is unemployed and unable to secure suitable employment. This requires an efficient system of current contact with unemployed applicants and it implies a close working relationship between the local unemployment compensation and employment office organizations to expedite the clearance of such certification and the payment of benefits when due.

Of great significance in the discharge of this function is the careful classification of workers in order to determine what is suitable employment. Development of the occupational adjustment program described above is needed in order to facilitate the rapid re-employment of unemployed persons into useful work for which they are well fitted.

D. Service to retraining agencies.

While retraining and rehabilitation of occupationally maladjusted workers is not the function of an employment service, it can be helpful in selecting and referring qualified workers to the retraining and rehabilitation agencies.

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The value of such services has been demonstrated in the peacetime arrangements for referring physically handicapped workers to the Vocational Rehabilitation services. During the war emergency the Employment Service is referring qualified candidates for "pre-employment and refresher" training of a vocational type to the schools and other agencies doing the training job for the accelerated wartime production.

III. Before leaving this discussion of the Employment Service, some comments may be pertinent concerning the organization and structure of an employment service.

In order to make any useful contribution to the organization of the labor market, which in its essential characteristics is nationwide, the public employment service must be nationwide. Not only does this require nationwide coverage so that every community is served by the necessary facilities, but it implies a sufficient degree of centralized control to produce uniform standards of operation, a nationwide system of clearance for labor, and employment information on a national basis. These objectives can be achieved either through a federal-state system, such as contemplated in the Wagner-Peyser Act, or through a strictly federal system. For a variety of reasons (some of which are cited in Chapter X) the writer believes a federal system is preferable, and such is now the plan.

Without going into the detail of the arguments for either of these two methods of administration, it may be pointed out that under either system certain responsibilities must be discharged by the central organization in Washington and certain activities clearly carried on as a responsibility of the state organization, whether such state operating organization derives its authority from state or from federal legislation.

A. State and local responsibilities.

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In general there should be no local offices operating under direct control of the central federal authority. Operating control should center in the local and state administrative authorities in accordance with general policies enunciated in Washington. This is largely true at the present time, although the particular functions of the Washington staff and the regional offices have not as yet been clearly enunciated.

B. Federal responsibilities.

Centralized federal responsibilities should include the following:

1. Personnel.

Unless a uniform merit system of qualification for all personnel in the Employment Service is maintained it cannot be expected to function efficiently. The entire Employment Service should be under the federal Civil Service, and such is now the case for all except a limited number of persons on strictly unemployment compensation functions.

2. Development of standards and procedures.

As is provided in the Wagner-Peyser Act, responsibility for the development of standards and procedures for Employment Service operation should be a centralized function. The national character of the labor market, with its constant flow of workers from one state's jurisdiction to another's, necessitates uniformity in the basic procedures and practices of employment office operation. In certain instances what amount to merely local employment opportunities cut across state lines, as in the case of the New York, Philadelphia, St. Louis, and Cincinnati metropolitan areas. In the absence of uniform practices great difficulties are encountered.

The Occupational Research Program already described is providing basic working tools for the use of all the operating offices.

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3. Training.

It is not sufficient for the central organization to prescribe standards of operation, of personnel, and of procedures and to develop working tools for the use of employment office personnel. Such tools and statements of standards either can be effectively used or can accumulate dust on employment office shelves. Provision of training personnel and a training program to aid the operating personnel in the effective utilization of these instruments and the achievement of the desired standards is essential.

Until recently the emergency activities of the Service have prevented any major development of a training program. With the recent production of job descriptions and other instructional manual material a training program has been organized and a staff placed in the field to work with local personnel in an effort to move ahead in the development of a professional and competent personnel. This activity has necessarily been sidetracked during the war emergency, but it will no doubt be revived.

4. Field supervision.

It is the responsibility of the central office not only to develop standards and provide working tools but to insure their effective utilization. This necessitates a field organization. The proper organization of such a field service depends to some extent on the type of field organization set up for unemployment compensation. It is important, however, that flexibility be maintained in such a field staff.

Because of restrictions in personnel and budgets, the field organization of the Employment Service was limited during the earlier years of the Service. More recently a larger number of technical representatives have been placed in the field, all engaged in the general work of supervision. Part of their

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time has been devoted to aiding particular state administrations in working out operating problems.

5. Clearance.

For obvious reasons the provision of a system for clearing labor must be a federal function. The very nature of the problem means that it carries beyond any state jurisdictions. Only meager beginnings of a clearance system were evident in the Employment Service prior to the past two years. In a later chapter the rapid development of this activity to serve urgent war needs is described.

6. Statistical program.

It is likewise clear that the statistical program must be set up on a national basis and be discharged as a federal function. Information is not amenable to geographic limitations. Under the terms of the Wagner-Peyser Act development of a statistical and informational service is a federal function and the present Service has so developed it. As previously indicated, the present program needs extension in the direction of current maintenance of adequate information with respect to the available labor supply as reflected in the active files of the offices. Much specialized information designed to serve the war effort is now provided by the Employment Service.

Experience during the past few years with the emergency National Reemployment Service as a flexible supplement to the affiliated state employment service organization indicates the importance of maintaining fluidity in the organization of the Employment Service. The diversity of our national economic system combined with the unusual problems involved in federal and state jurisdictions means that some form of Employment Service organization suited to the peculiar needs of the United States must be evolved over a period of time.

The strictly federal systems which have proven effective

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in the smaller and more compact industrial nations of Europe may be subject to some limitations when applied to our diversified social structure. On the other hand, certain limitations which have developed under the experience of the Wagner-Peyser Act suggest the need for greater flexibility and for a considerable degree of federal responsibility for direction and development of the Service. Over a period of more than twenty years the Bureau of Public Roads has evolved a co-operative federal-state arrangement which is now working effectively in its field of endeavor. In other fields of government activity a uniform federal system has apparently worked well.

On the basis of his experience with the administration of the Employment Service during the first seven years of its developmental period, beginning in 1933, the writer is convinced that a federal system of operation is essential in the long run. The reasons for this conclusion are in part cited above and in part included in the chapter on "Social Insurance." The federalizing of the Employment Service for the duration of the war emergency demonstrates the greater administrative effectiveness of this method of operation.

CHAPTER X

SOCIAL INSURANCE

THE governments of all important industrial nations have set up systems of social insurance to aid the victims of recurrent unemployment. Not only unemployment insurance, which is entirely concerned with relieving the burdens of unemployment, but other forms of social insurance likewise play their part, including old-age and survivors' insurance, health insurance, and even workmen's compensation.

It has been noted that the problem of relief in depression periods is a mixture of unemployment proper and inadequate incomes, with the distinction difficult to draw. Loss of income where ill-health or industrial accident are involved may be a combination of those factors with a scarcity of jobs. Frequently it works out that the individuals affected first and for the longest periods of unemployment are those who have suffered from ill-health or accident disabilities.

In such cases the provision of health insurance or workmen's compensation benefits is at least an indirect relief of the burden of unemployment.

A clearer case is presented by public provision of incomes for older persons who are retired from regular employment. To the extent that such individuals receive an income without being forced to hold on to or seek a job, the pressure of the unemployment load is relieved not only for themselves and their families, on whom they would otherwise be dependent, but for other workers who are in competition for the jobs these older workers hold or seek.

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This holds true whether the public provision is in the form of a contributory old-age insurance plan or straight assistance (pensions) for the indigent aged.

Beginning with the German health insurance schemes of Bismarck in 1883, the plan of compulsory public insurance against the major risks of loss of income has spread throughout all industrial nations, reaching its last major milestone in the Social Security Act of the United States in 1925.

The International Labour Office reported in 1926 that 130 compulsory accident insurance or workmen's compensation schemes were in operation in 54 countries; there were 45 compulsory sickness and maternity insurance schemes in 31 countries, and 75 compulsory invalidity, old-age, and widows' and orphans' insurance schemes in 30 countries.¹ Before our Social Security Act was passed in 1935, 11 European nations were providing subsidies for voluntary unemployment insurance programs which covered about 4,000,000 workers in that year. At the same time 8 European countries had compulsory systems covering around 35,000,000 employees.²

Our major concern, of course, is with unemployment insurance, but some of the observations made apply to all forms of social insurance. Moreover, the social insurances are interrelated in many ways—making it necessary to consider the combined program in order to understand and evaluate a single phase, such as unemployment insurance.

In characteristic fashion we did not properly capitalize on the experiences of other countries in passing the Social Security Act. The result was an important first step in providing certain essential social insurance programs, but they were provided in an incomplete and somewhat ineffective form.

The Social Security Act created a complex administrative

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structure partly on a straight federal and partly on a federal-state basis, and it lumped into one agency both insurance and relief activities.

There were other deficiencies in the Act, such as the failure to include health insurance, the narrow restrictions in worker coverage, and the principle of relating benefits directly to prior earnings, but the administrative complexities and the attempt to combine social insurance and relief programs in one setup comprised the greatest weaknesses.

Unemployment insurance is not primarily a device for stabilizing employment; it is simply a government-sponsored scheme for building up reserves out of income in periods of business activity (seasonal or cyclical) from which benefits may be paid to unemployed workers in slack periods, as offset to their loss of income. There may be some incidental effect in the way of incentive to industry to regularize employment, but not sufficient to warrant erecting such a system with that object in mind.³

It is likewise true that the unemployment insurance benefits received by unemployed workers may lessen the need for public works employment or for relief. In general, however, the workers affected by unemployment insurance are those who are regularly attached to an industry and who draw benefits while they are laid off temporarily in slack periods. Typically they are not among the applicants for public works employment or for relief.

In cases where the termination of employment becomes permanent, the worker will draw his unemployment insurance benefits before seeking these other forms of assistance. In all instances the ambitious unemployed worker, whether drawing insurance benefits, working on a public project, or receiving relief, will be using the public employment office

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as well as his own shoe leather to try to locate a new job suited to his talents.

Such a plan of unemployment insurance, designed to draw off some reserves during prosperous periods to be paid out in "income-replacing" benefits in slack periods to those workers who have contributed to the reserves (along with their employers), is a sound and desirable part of a planned government effort to minimize the effects of unemployment. Let us see how adequately the present scheme meets the need for a well-planned unemployment insurance program.

In a penetrating analysis of the Unemployment Compensation Program in the United States, William Haber and J. J. Joseph have suggested the following criteria for evaluating the system.⁴

1. Benefit payments should be socially adequate; in other words, the amount and the duration of benefits should be sufficient to support an unemployed worker and his dependents to an extent that will at least guarantee their subsistence and not require supplementation with general relief.
2. Equal protection (in cost-of-living terms) should be afforded to all workers, regardless of their industry, occupation, or state of residence.
3. The system should be understandable to both workers and employers and not impose unreasonable reporting burdens on employers.
4. Unemployment compensation should be so planned as to avoid uneconomic dislocations in the labor market, undesirable employment practices, and friction between employers and employees.
5. The system should be financed by tax measures which will insure adequate benefits and conform to the principle of "ability-to-pay."
6. The administrative structure should lend itself to the least delay and lowest possible cost in the collection of contributions and payment of benefits.
7. Unemployment compensation should be planned in relation to the entire social security program, so that integration and co-

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ordination can be achieved where desirable, and duplications of function avoided where possible.

In applying these tests to the operation of the present unemployment compensation system, Haber and Joseph reach conclusions which, in the main, confirm the impressions gained by the writer in his experience with the administration of the program.⁵

What can be said of the adequacy of benefits in terms of amount and duration? Benefits have been paid now for some four and one-half years (to July 1, 1942). The total amount paid comes to about two billion dollars—such payments meeting the major problem of perhaps 15 per cent of those unemployed during the period. The number of individuals receiving benefits varied from five hundred thousand (October, 1939) to one and one-quarter million in June, 1940. The average weekly benefit for total unemployment was \$10.57 in 1940 and for partial unemployment about \$6. The average annual benefit was \$100.15.

Average payments for total unemployment ranged from \$4.68 per week in North Carolina to \$14.16 in California—with nearly half below \$10. The annual figures vary from \$42.60 in South Carolina to \$174.12 in California.

These weekly benefits are entirely too small to serve the purpose of replacing the income losses of ordinarily employed workmen, even allowing for regional differences in cost of living. The real failure to offer worth-while benefits is seen, however, when the annual benefits are studied. A national average of \$100 compares with some \$296 received on general relief and \$663 on the W.P.A.⁶

Partial unemployment benefits are even more inadequate where they are provided, and some important states (including Pennsylvania and New York with one-fourth of the

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covered workers) have no provisions for such payments. Moreover, the long waiting periods before these meager benefits are paid create additional hardship. The duration of benefits is likewise entirely inadequate.

It is clear that unemployment compensation benefits do not take care of the covered workers during their periods of unemployment—with present schedules. They are thus forced to get assistance from some other source after benefits are used up and in some instances during the long waiting periods before benefits begin.

If relief or public works employment must eventually be resorted to by most of the unemployment compensation beneficiaries, a real question is raised as to the validity of the entire system. Is the additional administrative cost and burden on both industry and workers justified by the results? Would it not be simpler and less expensive to cover the entire need through public work and relief?

It should be pointed out that the Social Security Board has recommended greater uniformity and more adequate benefits.⁷ Similar recommendations have been made by the Congressional Committee on Unemployment and Relief.⁸ The attitude of many state administrative agencies and legislatures, however, makes it unlikely that really significant improvements will take place under the federal-state system now in force.

Another difficulty related to the benefit structure is the principle of relating benefits directly to earnings, with a resultant tremendous complexity both in collection of taxes and in calculations of benefits. Not only is this device responsible for undue effort on the part of employers, and for a great bureaucratic central machinery for maintaining records and computing benefits, but the workers themselves find

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it difficult to understand. Of greater importance—it involves an error in principle in that the benefits are lowest for those who need it most and greatest for those who need it least.⁹ The enormous difficulty involved in present computation of benefits on the basis of individual earning records would be increased by ultimate extension of the coverage of the laws to such groups as domestics and agricultural workers.

It is suggested that the legislation should be changed in three directions to correct these difficulties.

1. Substitution of certain brackets of wage rates for the present individual compilations.

The use of a few wage brackets should simplify both the problem of tax collection and that of calculation of benefits. At the same time the use of the bracketing procedure maintains the principle of differential benefits roughly related to differences of income and living standards.

2. Relating of the benefit structure more closely to the needs of the workers by providing:

Allowances for dependents
Higher minimum benefit rates

Social adequacy should be the first test of the validity of a social insurance program.

3. Substitution of a stamp system for the present individual return in certain industries and occupations.

Particularly when domestics and agricultural workers are covered a stamp system, similar to the British scheme, would seem to offer a simpler and more practical method of administration. Perhaps some of the present administrative difficulties in handling cases of employers of one or a very few workers might be simplified by use of such a procedure.

This brings up another serious limitation in the present

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unemployment compensation program; namely, the fact that only about half of the workers are covered under existing laws.¹⁰ (The proportion varies from 15 per cent in North Dakota to 71 per cent in Massachusetts.)

Some groups (such as domestic workers) have been excluded because of the administrative difficulties of including them during early experience with the program. Other groups combine some administrative complications with political pressures for exclusion, notably agricultural workers, while still other groups were excluded on purely political grounds; i.e., employees of philanthropic institutions.

Part of the political difficulties turn on state objections to a federal system, which seems essential to clear up the administrative difficulties of including maritime, agricultural, and domestic workers.

In addition to the legally excluded workers it should be observed that many workers who are nominally covered by the laws get no benefits since they fail to meet the overly stringent eligibility requirements, including high previous earnings figures and complete wage records.

In 1939 10 per cent of the claims for benefit were disallowed because of insufficient wage credits, and 5.6 per cent were disallowed because they had no wage records. It has been estimated that 18 per cent of the so-called "covered" workers in 1938 (about four and one-half million workers) could not have qualified for benefits.¹¹

The usual answer to criticisms of the inadequacy of coverage and benefits is that the soundness of the financial provisions must not be jeopardized. However, even the present tax schedule is yielding large excess reserves amounting to nearly two and one-half billion by August, 1941—about

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two-thirds of the collections to that date—and the reserve continues to pile up.

Unfortunately, while some meager increases in benefits were voted in a number of states recently, these minor and wholly inadequate improvements were accompanied by sharp decreases in the tax rate, responding to employer pressures. We seem to be heading for an inadequate program which may not be worth the effort. If we decide we do not want unemployment insurance but wish to concentrate on public works, relief, and other measures for meeting recurrent unemployment, well and good; but there is little point in maintaining a complicated structure of unemployment insurance if the particular group of unemployed it is designed to serve are quite inadequately provided for.

Part and parcel of the employer-sponsored pressure for reducing tax rates (and thereby seriously limiting benefits and coverage) is the drive to extend the so-called experience-rating, or "merit"-rating, provisions in the laws. The chief arguments advanced for introducing "experience-rating" provisions into the unemployment compensation laws are:

1. That individual employers will be led to stabilize employment by the inducement of a lowered pay roll tax
2. That experience rating will equitably distribute the costs of unemployment insurance¹²

In Chapter VII the advantages of employment stabilization by industrial firms and industries were indicated. The advantages of such regularization to the firm are such that a tax reduction stimulus is probably unnecessary if the firm can take the necessary steps. As a matter of fact, however, only short-term fluctuations in business activity, largely seasonal, are capable of significant regularization by industrial planning, and unemployment compensation does not provide

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effective relief for these short seasonal periods of unemployment. The long waiting periods and the exclusion of highly seasonal occupations nullify the effectiveness of unemployment compensation in such cases.

As to the second argument, two points may be made. First, assuming the employer bears the burden of the tax, we have a situation in which sound tax principles are reversed. The industries least able to pay (because subject to the greatest fluctuations of productive activity and employment) pay the largest tax, and those best able to pay (the stable industries) pay the smallest.

As in the case of benefits paid in proportion to wage rates—the inequities are increased rather than decreased, and the whole idea of social insurance (wide spreading of the costs of income losses over the receivers of the national income) is invalidated.

If, on the other hand, the employer can and does pass the tax costs on to the consuming public, then there can be no incentive to employment stabilization and one tax method possesses no more “equity” than another. Of course, whether the tax cost is passed on to the consumer depends on the elasticity of the demand for the product and varies from industry to industry.

Haber and Joseph conclude that the operation of experience rating in the four states (Wisconsin, Nebraska, South Dakota, and Indiana) where variable rates were in effect prior to January, 1941, demonstrates three major weaknesses in the plan.¹⁸

1. Experience rating has encouraged employment practices inimical to workers and undesirable from the point of view of labor market policy.

These include undue spreading of work—with reduced

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earnings and underemployment of many workers, hiring for "probationary" periods only to avoid "regular" employees, hiring of students and others not eligible to receive benefits, and layoffs and rehiring timed within the week to avoid "partial" benefits.

2. Most reduced contribution rates have not been directly related to bona fide employment stabilization but reflect such chance factors as the industry of the employer, economic conditions, or the peculiarities of the present experience-rating provisions: many employers, for example, will be able to secure reduced rates because production for war needs will reduce employment fluctuations in their plants.

3. Experience rating is being utilized as a method of reducing taxes and restricting benefits and thus works at cross-purposes with the objective of unemployment compensation.

Experience rating has given rise to "stabilization consulting services" to advise employers on methods of reducing tax rates, and the business press contains many articles directed to the same end.¹⁴

Again, in criticizing this feature of state unemployment compensation laws, it should be noted that the Social Security Board is aware of the objections to experience rating and within the bounds of the federal law is endeavoring to persuade the states to avoid the worst aspects of these provisions.

The final criticism of the unemployment compensation program leveled by Haber and Joseph is that the federal-state system is inefficient and unworkable.¹⁵

On this point the writer feels strongly that a federal system is necessary. It is important for working efficiency in the employment service; it is essential if unemployment compensation is to function! Our views on this point are well known to employment service and unemployment compensa-

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tion administrators.¹⁶ Those views will be briefly restated here in terms of personal experience with the administration of these programs. The reader may also wish to review the conclusions reached by other independent groups of qualified investigators who have studied these programs in action. In addition to Haber and Joseph, whose views have been frequently cited in this chapter, two extensive studies of the working of unemployment compensation in the United States were made by Bryce M. Stewart and Associates in the Industrial Relations Counselors and by Raymond C. Atkinson for the Committee on Social Security of the Social Science Research Council.

The fundamental argument for a federal system of unemployment insurance is that in any insurance program the broadest possible spreading of risks should be secured.

Just as a state-wide plan is superior to "self-insurance" by one firm, so national spreading of insurance risks is superior to forty-eight state systems. The labor market is nationwide and does not respect state lines. Where localization occurs, it is usually in terms of metropolitan areas rather than states. Workers in New York City are from New York, New Jersey, and Connecticut; in St. Louis they are from Missouri and Illinois; in Philadelphia they are from Pennsylvania, New Jersey, Delaware, and sometimes Maryland. Under a federal plan, workers and employers in all parts of the country would receive similar treatment under like conditions. Workers in the states subject to severe unemployment would not be forced to accept lower benefits than those in states with stable industries—a negation of the principle of "social" insurance. Moreover, employers would receive equal treatment rather than face state differences in experience-rating schemes and reporting requirements.

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Other advantages in a federal plan include the following:

1. A unified and simplified system of wage reporting and record keeping, including possible consolidation with reports needed for old-age and survivors' insurance
2. A single administrative agency in place of fifty-one with different regulations and interpretations, resulting in some savings in administrative expense
3. Possibility of consolidation of the unemployment compensation system and the railroad unemployment insurance system now on a federal basis
4. Unified planning and co-ordination of federal attacks on unemployment and relief problems, including work relief, public works, employment service, unemployment compensation, and the other social insurances
5. Improved personnel standards through federal civil service in place of state control

The chief arguments for the federal-state system of unemployment compensation administration are:

1. That in a country as large and varied as the United States a single plan of unemployment insurance would not take adequate account of the differences in character and needs of the several states
2. That there is need for much experimentation to evolve a workable system and the states offer extensive opportunity for such testing

With respect to the first argument, what actually happened was that nearly all states modeled their unemployment compensation laws on the draft bill prepared by the Social Security Board. Moreover, the basic features of that act have proved adaptable in all parts of the country. It may also be noted that the Railroad Retirement Board and the Bureau of Old Age and Survivors' Insurance have done a satisfactory job of adjusting national systems to meet local needs.

As to the second point, little worth-while experimentation has taken place in the several states. There are differences

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—sufficient to complicate the problems of interstate employers, for example—but few new ideas or administrative practices. Certainly the meager gains in this area are not adequate compensation for the injury to the social insurance program which has resulted from bickering and friction between the state administrative agencies and the federal agency.

The real reasons for instituting and maintaining a federal-state system are political. It was at first believed that the Supreme Court would hold a federal system unconstitutional. Now that that fear is largely dispelled, it is politically difficult to overcome the vested interests of state administrative agencies and the “State rights” objections to the change-over to a federal plan.

We have taken the important first step in creating a system of social insurances. The many needed technical changes in tax procedure, improved benefit structure, extended coverage, etc., can be made over a period of time in a succession of amendments such as have been necessary in Britain and in continental European countries.

Whether we shall have a workable system or a costly and ineffective one depends chiefly on whether we secure a federal system of unemployment compensation to co-ordinate with the federal old-age and survivors’ insurance. To round out the program a federally administered system of health insurance should (and probably will) be added in the near future.

This group of federally administered social insurances, together with the employment service, should be associated with the other agencies dealing with problems of the labor market—in the Department of Labor—rather than with relief and educational agencies as at present. The experience of

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Great Britain, prewar Germany, and other industrial nations suggests the logic of this arrangement.

The important consideration, however, is the co-ordination of a system of federally administered social insurances with the employment exchanges as the local unit of contact with the worker whose rights and employment opportunities are at stake.

CHAPTER XI

WARTIME CONTROLS AND POSTWAR READJUSTMENT

MOST of the devices considered thus far as means of reducing recurring unemployment are designed to work most effectively in "normal" periods, when the fluctuations and changes in business activity can be anticipated and planned for with some degree of precision. A war so greatly accentuates the violence of the fluctuations in production and so seriously increases the dislocations and frictions that many of the usual measures are incapable of coping with the problems created.

Some of the procedures suggested for normal industrial and government planning to reduce unemployment—such as industrial research in the development of new products, the maintenance of a central planning agency, and the development of a public employment exchange—are enhanced in importance by a war crisis.

Industry must speed up its search for substitute products and for newer and more efficient methods of production. Modern war is based on productive efficiency—fully utilized. Moreover, the facility with which industry can shift from normal production to defense or war production is the measure of a nation's war strength. It is equally true that the avoidance of economic collapse in the postwar period depends on the facility with which industry can shift back from wartime to normal production and devise new products to meet potential demand.

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Steps must be taken by government to see that the potential demand is backed up by purchasing power which can be effectively utilized in the postwar period if industry's constructive efforts are to be realized.

Industry's task in the face of the war and postwar crises which face this country is well stated by Philip D. Reed, Chairman of the Board of the General Electric Company and Chief of the Bureau of Industry Branches of the War Production Board, in an article from which the following paragraphs are quoted:¹

First let me say that in my judgment we are in for a long struggle. . . . Recognizing full well the difficulties of prophecy, I predict that five, perhaps more, years lie ahead of us during which prime emphasis will be placed on the production of military products and devices. Great as our national production organization is, it will be deluged in many places by the demands upon it for American and foreign defense needs.

This means, quite simply, that for a period not of months but of years our peacetime nondefense industries must prepare to get along with less, much less, than their requirements of a long list of strategic materials. Nickel, aluminum, magnesium, zinc, synthetic rubber, various kinds and forms of steel, tungsten, copper, and certain chemicals for defense are but a partial list of the materials which, because of very large and rapidly increasing defense requirements, will be available only in restricted quantities for peacetime purposes. . . .

With a large segment of our workers receiving billions of spendable dollars for producing goods that will not be offered in the markets, it is inconceivable that our chemists, our engineers and our designers should fail to fashion new and useful products that will not interfere with defense production but will absorb a part of this great purchasing power, tend to allay inflationary pressures, help to support our standard of living, and keep all of America at work. Not the least of the benefits of prompt and effective action in this direction will be a further increase in our national income and a corresponding enlargement of our ability to pay for a large fraction of the defense program as we go. . . .

The need is great and still rapidly growing. New plants require

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valuable time and large amounts of material which should be flowing into the product itself. The answer, it seems to me, is obvious. For unless and until industry completes, in time, the great task assigned to it . . . we will have little occasion and perhaps but little opportunity to consider the nature of the world we shall be living in after the war. By this I do not mean that post-war planning is not important and desirable. I simply mean that we must not forget to put immensely important first things first.

That our political, social and economic scheme of things after the war will resemble neither the 1920's nor the 1930's seems amply clear. I suspect that the war will advance by several decades the twentieth century trend away from laissez-faire and toward economic integration and industry-wide planning under government supervision.

I anticipate and look forward to a mature, consolidated, national labor organization, led by able and understanding men who will negotiate all questions pertaining to wages, hours and conditions of work with business leaders acting in concert through associations of employers on an industry basis.

We may also anticipate large and gradually declining government spending for previously planned and generally desirable public projects and reconstruction programs for several years after the war, to cushion the devastating effect of an almost vertically declining demand for armaments.

I anticipate great emphasis being placed on production and a deep determination to take whatever steps are necessary, however drastic, to avoid a recurrence of mass unemployment. To this end we may expect to see the government gradually relinquish its ownership of defense plant facilities on terms and conditions that will provide the purchaser with a strong incentive to maintain production and employment.

Subject to the points just mentioned—and this is no insignificant reservation—I believe a sincere attempt will be made to preserve the elements and incentives of the enterprise system . . . and while the concept of the normal functions of democratic government will be substantially enlarged, I believe that labor, agriculture and business will solidly unite in preserving some substantial part of the freedom of action and of opportunity that are the backbone of our enterprise system.

It has been said that confidence depends in large measure upon

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the economic visibility of the day. No one can say with assurance whether the restoration of world peace will find the horizon near or far, dark or bright. But whatever it is, ours will surely be the farthest and the brightest horizon of any nation on earth. Relatively, therefore, we shall be well off in material resources, in individual initiative and in war-born habits of work. What greater assets with which to face the future could any people ask?

To achieve the tremendous tasks assigned to it in the war emergency, not only must American industry have tools, equipment, supplies, and man power—it must have full use of man power potentialities.

This means in the first instance high-grade managerial planning and administration, such as Reed urges and such as has been demonstrated by Henry Kaiser in shipbuilding and Henry Ford and others in streamlining aircraft production.

It is equally important that the workers in war industry put forth their best efforts—as they are doing—resulting in production of vital items ahead of schedule. Both management and the government have begun to realize that workers are eager to accept individual responsibility for the success of the war effort.

The War Production Board in June, 1932,² announced a plan of individual awards to workmen who devise means for improving war production. The awards, at three levels of merit depending on the value of the suggestions, will be official documents of the War Production Board, presented and countersigned by the manager and worker cochairmen of the Company Labor-Management War Production Drive Committees.

This is significant in two respects—it dignifies individual effort and it points out the work of the joint labor-management committees in promoting the war effort.

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As of June, 1942, over nine hundred such joint committees were in operation in vital war plants and thus an effective piece of machinery was functioning to avoid labor difficulties and to secure real co-operation in planning and executing the production program.

In the six months from December 7, 1941, to June 1, 1942, the production schedule was stepped up at an incredibly rapid pace. During 1941 approximately 15.5 billion dollars was actually spent on war production. By June, 1942, the rate of expenditures was approaching 4 billion dollars a month, with a 50 billion dollar or better prospect for 1942. The rate of war production more than doubled in this six-month interval. Here is real evidence of the potentialities of human effort when the incentives to co-operate and to produce are strong!

As Reed has intimated, the huge co-ordinated effort which must be made by industry and government both during the war crisis and in the postwar period is unattainable without a central government planning agency which can chart the course and map out the responsibilities of each major agency—private and public. Whether we like it or not, planning and co-ordination of our economic effort by a responsible government is vital to our continued existence as a democracy.

An instance of the necessity of careful planning in the present situation relates to the matters of relief and public works. The priority requirements on raw materials, the acute shortages of many types of skilled labor, and the great reduction in the numbers of the unemployed—all argue for the drastic reduction, almost the elimination, of all but essential wartime public works programs.

We should avoid competition of such projects not only

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with war needs but also with consumers' goods industries, which are themselves facing war restrictions.

On the other hand, both because the relief load remains high (its clients are largely unskilled and not in demand) and because drastic shifts in the industrial structure are being forced by war requirements, with resulting "priorities unemployment," we must have an even more flexible and adjustable policy in relief if we are to meet the sharply varying needs.

Indeed the prospect of a large volume of temporary "priorities unemployment" may be attributed in considerable part to a failure to plan adequately for the defense needs on the part of both industry and government. On this point informed opinion seems to be pretty well agreed.³

In the early postwar period it is generally agreed that a large-scale public works program will be an essential cushion to absorb a portion of those dislodged from war activities and not as yet reabsorbed in private industry.

Extensive planning of such a program is necessary to achieve useful and appropriate results in the construction itself and to make possible a control of the volume of such activity relative to the expansion of private production. Fortunately a significant beginning has been made in planning such a program. Not only is there some planning under way, but the need for such work is being brought to the attention of the public.⁴

The employment exchange faces additional responsibilities both in the war effort and in postwar readjustment.

During the past two years (July, 1940-July, 1942) the United States Employment Service has been undergoing a series of readjustments designed to increase its usefulness in the war-production program. Unfortunately the Service had

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just been transferred from the Labor Department in July, 1939, and was in the process of being completely merged with the Unemployment Compensation Bureau to form the new Bureau of Employment Security in the Social Security Board.

As the defense program got under way in 1940, the new bureau was still in the throes of "integration" and several successive reorganizations were undertaken to try to find a working formula for the unified programs. Whether under normal circumstances such a formula for completely merged administration of the two activities could have been found is a question. Certain it is that in the face of the enlarged war-time responsibilities placed on the Employment Service it became necessary to re-establish and re-emphasize the identity of the Employment Service as contrasted with the unemployment compensation function.

This was accomplished by recreating the name United States Employment Service, re-establishing the position of Director of the United States Employment Service, and aligning the work of the Employment Service with that of the Labor Supply Division of the O.P.M. (later the Labor Division of the W.P.B.).

Essential co-ordination of these relationships is now secured by virtue of the fact that the Director of the United States Employment Service is also serving as Director of the Bureau of Employment Security. The latter bureau still includes the Employment Service (at least theoretically) and the unemployment compensation function.

What the ultimate solution of this organizational problem may be is not clear, but the essential identity of the Employment Service activity has at least been re-established for the period of the war emergency by recent presidential action

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federalizing the United States Employment Service, while unemployment compensation remains on a federal-state basis.

Two phases of Employment Service work have been enhanced in importance by the war situation. The first involves an extension of the occupational analysis and classification work to meet the needs of the armed services and of war industry. The methods of analyzing job requirements and developing selection techniques for choosing qualified workers for particular occupations have been applied to the job requirements of the army, the navy, and the essential war industries.

Similarities to the usual industry job requirements and essential worker characteristics are being discovered in the new work assignments—thus facilitating effective occupational transfer of men to the armed services and to war industry. These job studies are also proving useful in enabling the Employment Service to meet increasing shortages of workers in skilled occupations.⁵

Another major development in employment exchange service is the extensive clearance of special orders for skilled workers through the facilities of the nationwide network of local offices. The clearance function had only a limited development until the defense-production program began to create serious local shortages of qualified man power.

During the past year the Employment Service has developed a nationwide machinery for routing orders for specialized workers to local offices in areas where such qualified workers or trainees may be found. While this clearance service is still functioning with limited experience and efficiency, it has already succeeded in preventing some mass movements of unqualified workers to defense industrial areas

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and is filling approximately 15,000 jobs a month on clearance orders received through distant offices.

In connection with this problem of adjusting the existing labor supply to war needs, regional and local labor supply committees have been formed to aid both the Employment Service and the various defense training agencies.

As the tempo of war production has speeded up sharply, the United States Employment Service has become deeply involved in serving the labor needs of the war industries and the armed services. This involvement, together with unfortunate restrictions in the budgetary provisions for this vital agency, has forced a curtailment of the normal functions of the Employment Service. In an announcement of operating plans released in May, 1942, the Service summarizes the situation as follows:⁶

It is the purpose of this plan to redirect the efforts of the Employment Service toward meeting those labor needs which are essential to the war effort. To do this within the limits of staff and budget available requires, in effect, the establishment of "priorities" on the service of Employment Service personnel.

In order to provide further guidance to the State and local offices there will be provided a list of industries, divided into three categories:

1. Those industries which are so nearly completely devoted to war production that any plant classified in such an industry (as defined in *Industrial Classification Code*) can be considered an essential employer unless the local office has information to the contrary.
2. Those industries which are partly devoted to war work but which contain many plants not engaged in war production.
3. Those industries so completely separated from war production that any establishment classified in such an industry can be considered as nonessential unless it is known to be engaged on work of importance to the war effort.

Employers in industries in Group 1 should ordinarily be given first attention. Employers in industries in Group 2 should be given

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preference in Employment Service only when it is definitely known that they are working on war contracts or subcontracts, or on equipment or materials for contractors or subcontractors. Employers in industries in Group 3, unless known to be engaged in war work, should be served only when local offices have sufficient staff time available to serve all those in Group 1 and those in Group 2 who have been determined to be essential war producers.

These instructions, in effect, establish two kinds of priorities governing the use of Employment Service staff time. In the first place, certain functions must be performed, if necessary to the exclusion of other functions. In the second place, certain employers must be served, if necessary to the exclusion of other employers. The net effect is to establish a prior claim on Employment Service staff time *for essential activities for essential employers*. Nonessential activities, whether or not performed for war employees, and any activity on behalf of nonessential employers, must be deferred until essential functions have been performed.

Two specific types of service will have to be redirected and re-oriented to the needs of the war program. The junior counseling and placement function must be reexamined and directed exclusively toward the recruitment and classification of workers for war production. Many of the activities heretofore carried on through the junior counseling and placement services will continue to be performed but only as a part of the recruitment, selection and placement program to meet the needs of war production. What might be termed "clinical counseling" as a service to the individual applicant without regard to his availability or suitability for war work will no longer be possible.

Similarly, the special Statewide teachers' placement services must be integrated into the normal recruitment and placement activities (including clearance) of the Employment Service. The Employment Service should continue to render placement service for teachers, like other applicants, as far as staff time permits within the limits of the priorities here indicated; but the special personnel hitherto devoted to teacher placement must be made available to assist in the over-all recruitment and placement job.

These two services are singled out for redirection, particularly because of the many highly capable and qualified staff members engaged in them. It is believed that their contribution to the war-time job of the Employment Service can be greatest if they are

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engaged directly in the recruitment and placement activities essential to the war effort.

Just as industry must gear itself to transfer productive capacity quickly from wartime to normal production, so the government through its Employment Service and associated agencies must aid the thousands of workers who are in the military establishment and in war production to readjust themselves as quickly as possible into peacetime jobs. The techniques which have been devised to facilitate geographical transfer of workers and occupational adjustment to fit our man power into the war effort can and must be made to work with equal efficiency in the reverse movement. The things we have learned about short intensive retraining methods should prove very useful in this new readjustment program.

The war situation, while it emphasizes the importance of some of the programs we have just discussed, requires a change in policy in other agencies.

This is particularly true of the social insurance programs. One of the major objections to the present social security program, under peacetime conditions, is that the pay roll tax method of financing is strongly deflationary. It has been noted that the system tends to increase rather than decrease the economic inequalities between income groups and it constitutes a burden on the working population. This latter characteristic, however, constitutes an asset in wartime when anti-inflationary taxes are desirable brakes on a spiraling price structure.

Accordingly responsible government officials have been urging that, as one form of "forced saving" (which comprises a brake on inflation and at the same time creates a cushion to meet postwar depression), social security taxes should be sharply increased, both old-age and unemployment com-

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pensation taxes. The proposals call for stepping up the taxes more rapidly than scheduled to the full rates provided in the Act and broadening the coverage to include several occupational groups now excluded, such as agricultural, domestic, and maritime workers, together with possible payment of "dismissal wages."

Secretary of the Treasury Morgenthau, in recommending such a program to Congress in the summer of 1941, made three suggestions:

1. That the tax rates be increased
2. That more workers be included in the scope of the act
3. That provision be made for "dismissal wages" when war jobs come to an end

All of these suggestions are desirable. Such a plan has the dual advantage of putting restrictions on present purchasing power and at the same time providing future benefits for the wage-earning population.

Some critics have objected that this program would mix social objectives with war financing and that we should stick to present emergency problems and forget "social reform" for the duration.⁷

It is doubtless true that the administration hopes for a general broadening of the social insurance program as well as an anti-inflationary wartime measure. This dual objective seems to us desirable and the timing appropriate.

So far as unemployment insurance is concerned, there is another policy change which is desirable in the present crisis in addition to special provisions to care for "priorities unemployment."⁸ To meet the great demand for unemployment benefits which seems bound to arise at the conclusion of the war, much larger benefits over longer periods will be necessary and greater flexibility will be needed if the workers

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most closely associated with war activities are not to be discriminated against.

Among these problems of potential discrimination is that of the benefit status of the draftees who are called into military service for varying periods. Britain in order to meet similar problems in her unemployment program has greatly widened the coverage of the system and relaxed the eligibility provisions. Benefits were substantially increased for insured persons and dependent children (thirty-week duration—rates increased to match living costs) as well as for agricultural workers. To cover the additional costs, contribution rates were increased for employers, workers, and the government.⁹

So long as we have the relatively inflexible federal-state system of unemployment compensation it will be difficult if not impossible to achieve these extensions and modifications in this country.

That is why attention is being focused on the more feasible step of increasing tax rates and coverage under the federal old-age and survivors' insurance plan, although obviously the unemployment compensation system should be the first one adjusted.

The extraordinarily rapid increases in business volume and in prices which characterize a war effort—together with the threat of drastic deflation and unemployment to follow—require extraordinary measures to attempt to control the violence of the swings.

Thus certain measures which may not be desirable under other circumstances are necessary and acceptable control devices under these crisis conditions. Such measures include "forced savings," price controls, restrictions on installment and other credit, priorities on raw materials, tax increases,

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and the rationing or limitation of the purchase of certain goods.

Most of these measures if applied in a "normal" period of business expansion, during the upswing of the cycle, would have beneficial results in restricting the violence of the fluctuations. However, public resistance to the imposition of such measures is such that they are not possible in effective degree under usual circumstances.

The changed public attitude during a defense or war crisis permits their use. The changed attitude probably is a compound of fear of inflation and subsequent depression with a recognition that preservation of national integrity requires sacrifices which are not normally acceptable.

We are just reaching the point where the people of the United States are ready to accept all of these measures—as a result of the shift of public opinion in that direction following Pearl Harbor. In Britain public attitudes accepted these measures by late 1940. Of the several proposed methods for preventing extreme inflation and building up a reserve of consumer purchasing power to be released in the postwar period, five are now in effect in varying degrees—increased taxes, restrictions on credit, control of price increases, rationing of a few consumers' goods, and restriction of use of materials on the basis of war-production priorities.

Reference has been made above to proposals for a form of "forced savings" by increasing social security taxes and coverage.

Not only are tax increases inevitable in a war period, but types of tax extension which are ordinarily deflationary and undesirable because they hit low incomes and increase economic inequities (such as pay roll and excise taxes) are acceptable in a war period—for the reason that consumer

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purchasing power must be drawn off from the market. Since so much of the increased production (and purchasing power) represents war materials which are not available for consumer purchasing, a failure to draw off current purchasing power—through taxes, limitations on purchases, and “forced savings”—inevitably results in inflation.

There is danger, of course, that groups which always favor a larger share of taxes falling on lower incomes (including some business leaders) will be able to take advantage of the present crisis to shift an undue proportion of the burden to these low incomes. Care must be exercised to prevent such a move, which would only increase the long-run problem of unemployment attributable to a maldistribution of income.

What is needed is a tax program which will draw off all possible purchasing power from upper income groups before extending the tax base, as must be done, to lower incomes. This means the first emphasis, as always, should be on income taxes, individual and corporate. The object is to reduce present purchasing power and increase future purchasing power reserves—particularly among lower income groups. This is the merit of increased social security taxes at the present time. However, the principle of heavily progressive tax rates should be observed, even as we necessarily extend the base at lower income levels.¹⁰

A form of “semiforced” or induced savings—which is desirable, since it achieves reduction of present purchasing power, builds up future reserves, and at the same time aids in war financing—is the direct consumer sale of government securities, such as war bonds and stamps. Britain has pushed this program further into actual “forced savings” by in effect taxing away present purchasing power and issuing

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securities to the taxpayer which can be redeemed in the postwar period.

Such a plan has merit and may prove necessary here if voluntary savings and other methods of creating a "purchasing power reserve" are not successful. Vice-President Wallace's suggestion of a system of "required purchase" of some form of war savings stamps as a percentage of the purchase price of certain goods is an illustration of forced savings. Some such plan may appeal to the American public.

The program inaugurated under the guidance of the Federal Reserve Board for restrictions on the use of consumer credit is another step designed to curtail present purchases and build up future reserves of purchasing power. It is likely to be more effective in curbing competitive demand for essential war materials and in holding down prices by restricting demand volume than it is in building future reserves. Only in the sense of creating a backlog of unfilled demand will such a policy have important future effects on purchasing power.

As compared with direct price controls, restrictions on installment buying and on other forms of consumer credit are much easier to control, and they act in the same direction to limit inflationary tendencies.

However, since consumer credit is the basis of only a portion of the demand for consumers' goods and has little direct effect on the prices of producers' goods or war materials, other controls are necessary to keep the situation in hand.

Largely because the slow adjustments of the market are ineffective in restricting normal demand for materials essential in war production, actual limitations on the use of such items through a priorities system are necessary in a war

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situation. Thus restrictions on nonwar uses of such items as aluminum, steel, silk, rubber, and many other products must be imposed.

Rationing of consumers' goods where the supplies are inadequate (i.e., sugar, gasoline, etc.) is likewise unavoidable. In the long run the elimination of many of these items from the normal market will be beneficial, since it restricts present purchases and builds up a future demand for the product. Moreover, there is a present stimulus to the development of substitutes which may contribute to industrial expansion in the future. Of much greater importance, however, is the fact that rationing and priorities control are essential prerequisites to any attempt to control prices in a war economy.

Without war priorities on raw materials, price ceilings on such goods would keep up sharp competition for their use by nonwar industries.

Without rationing, a fixed price on scarce consumers' goods would merely place a premium on "getting there first with the most cash." Great injustices to individual consumers would result and the inducement to "black-market" trading would be well-nigh irresistible, as British experience demonstrated.

Immediately, however, serious dislocations in the productive mechanism occur. So-called "priorities unemployment" becomes real and thousands of workers are dislodged—at least temporarily—because of the closing of nonwar industries.

The best efforts of the central planning agencies are necessary to cushion this shock and to shorten the period of employment dislocation. Some efforts are being made by the War Manpower Commission to deal with this problem through the system of regional and local labor-supply com-

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mittees described above. A program for the extension of unemployment compensation benefits to dislodged workers who are being "retrained" for war industry would help tide over this period of unemployment.

It is also likely that efforts which are currently being made to farm out war contracts into an increasing number of sub-contracts utilizing existing small industries will help in this situation. Speed in the early phases of the defense effort made concentration in large units of production necessary. Where plans can be devised to divide the job and allocate production to many localities and many small shops, dislocation of labor can be minimized and productive facilities can maintain a more normal ratio of activity in all areas.

Another immediate threat resulting from these industrial shifts is a further impetus to inflation. As more of the total production turns from consumers' goods to war items, the proportion of available purchasing power to goods which can be bought increases.

It thus becomes necessary to indulge in the complicated and dangerous business of direct price controls. The indirect restraints on price increases outlined above are important, but the movement is so rapid that direct controls are unavoidable.

Moreover, the dangers, great as they are, are relatively less serious than when price controls are attempted under peacetime conditions. An operation which would require the precision of a surgeon's knife in normal times can be executed with a meat ax in a war crisis period, because it is a case of lopping off the limb to save the life of the organism. It must be conceded that direct price controls, in our present stage of inexperience with them, more nearly resemble meat axes than surgeons' knives! Only the fact that a runaway inflation

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would threaten the existence of the economy justifies the experiment.

It is inevitable that many mistakes will be made and that even the wisest decisions by the price controlling agency will occasion hardships to many industries and workers. Protests will be vigorous and few who are directly affected will be able to "see the forest for the trees"!

Some employers have suggested that wages and other costs should be controlled and the prices of the finished goods will then adjust satisfactorily. This does not seem to be either a feasible or a desirable approach. Labor would not take kindly to a rigid control of wages as the initial step in such a program and major dissensions destructive to the war effort would be the likely result. Moreover, there is little in our industrial history to lead to the conclusion that industry itself would refrain from profit taking and price increases or maintenance under such conditions.

On the other hand, fixing of prices of most goods, while of course occasioning dislocations, leaves management free to adjust its productive program within those initial limitations. Then if labor costs prove prohibitive, public opinion and labor attitudes will permit a more reasonable adjustment than the reverse procedure.

All previous experience with periods of rapidly rising prices shows that wages rise less rapidly than other prices. Moreover, the demands for wage increases usually arise from two considerations—first, rising living costs and, second, belief that profits are rising and labor should get "its share." If these two price factors are controlled there is reason to anticipate "stabilized wages."

While all of the measures described above are essential parts of a concerted effort to control the wartime expansion

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and expedite the conversion from "normal" to war production, it should be emphasized that some are more important than others.

First attention should be given to tax increases. Here is the most effective "anti-inflation" measure. It is better to draw off purchasing power in taxes than to try to limit the ways people use it through rationing, priorities, price controls, and limitations on credit.

Moreover, a heavy wartime tax program results in a fairer distribution of the costs of war than other alternatives.

With a large proportion of the war costs paid in taxes, the burden can be allocated fairly among the present citizens. Also the postwar generation is not burdened so heavily either with taxes to repay war borrowing or with the aftermath of wartime inflation.

Where a tax program can be combined with "forced savings," either of the social security tax type or of a type such as the British or the Wallace scheme, the best results can be anticipated, since a cushion is provided against a postwar slump.

While extensive borrowing cannot be avoided in a war period, it should be remembered that such a method relieves the more well-to-do among the present generation (who are the major purchasers of government securities) at the expense of future taxpayers in all income groups. Moreover, "war bonds," if they can be used as collateral for bank borrowings, may increase inflationary tendencies.

Inflation is the least desirable method of financing a war. It hits the low income groups just as hard as a heavy sales or excise tax, without the yield of such a tax. The entire economy faces disruption from the violence of the cycle of expansion and subsequent deflation.

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In summary, then, tax increases and forced savings should constitute the first lines of attack on wartime inflation and the other measures may be regarded as necessary policing devices to protect the essential interests of war industry and individual consumers.

Since price controls, rationing, priorities, and credit controls are essentially policing devices, it follows that the less we have to rely on these methods the fewer difficulties we shall encounter.

It is clear that such a complicated program of wartime controls calls for a maximum of central government planning and direction of the economy—both in production and in consumer activities.

As we look back from mid-1942 over the really magnificent record of war production in recent months and the co-operative spirit with which the people are accepting the “policing controls,” we can draw encouraging conclusions for the future. Only a year ago many said that such an achievement was impossible under the “best conditions of government management” and obviously unthinkable with the “bungling antibusiness bureaucracy” of the New Deal. .

As Donald Nelson has recently commented,¹¹ in the light of this achievement there is no reason why we have to accept postwar collapse and unemployment as inevitable! The first step toward postwar stability is to control the wartime expansion in a manner designed to minimize inflation and industrial dislocation.

In remaining chapters we hope to suggest some steps to be considered in postwar planning—in the interest of a stable and expanding economy.

PART III

EMPLOYMENT AND PURCHASING POWER

CHAPTER XII

THE CONCENTRATION OF ECONOMIC CONTROLS

EVEN if all the programs outlined in Part II are successful in reducing to a low level the volume of recurrent unemployment (and they are necessary phases of the solution of the unemployment problem in any economic system) there remains a large and growing core of unemployment, due to an unbalanced market situation occasioned by maldistribution of income.

This thesis has been stated in Chapter VI; but since it is the central problem, it is in order to analyze it further and to consider the steps which may be taken to correct the basic difficulty.

During recent decades, certainly for the past fifty years, the concentration of control over the economic system into fewer and more powerful hands has been a steady and cumulative process.

Thirty years ago, prior to the first World War, leading liberal statesmen and economists were alarmed by the trend, which was clearly away from "free competition" and toward private concentrations of control. It was evident at that time that ownership control was being rapidly concentrated through developments in the credit structure.

The Pujo Committee, appointed by Congress in 1912, reported¹ that the steady growth of industrial concentrations through such devices as trusts, holding companies, and interlocking directorates had been supplemented by a newer and even more dangerous form of centralized economic control in the "money trust."

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The Committee felt that continued domination of the financial policies of industry by "Wall Street" bankers was more destructive of essential competition than anything accomplished by the trusts. This viewpoint was shared by the new President, Woodrow Wilson, who commented as follows in 1911:²

The great monopoly in this country is the money monopoly. So long as that exists, our old variety and freedom and individual energy of development are out of the question. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men, who, even if their actions be honest and intended for the public interest, are necessarily concentrated upon the great undertakings in which their own money is involved and who, necessarily, by every reason of their own limitations, chill and check and destroy genuine economic freedom. This is the greatest question of all; and to this, statesmen must address themselves with an earnest determination to serve the long future and the true liberties of men.

At the same time that great foe of monopoly, Louis D. Brandeis, was beginning to challenge public attention with his effective and persistent attacks on the growing concentrations of economic power.

Wilson and Brandeis were crusading for a return to free competition. The "New Freedom" contemplated the restoration of a free market through breaking up industrial trusts and combinations (the Clayton Act) and eliminating the "money trust" through the creation of the Federal Reserve System.

These and other measures designed to curb the concentration of controls were adopted in the Wilson administration. But in 1939 the research staff of the National Resources Planning Board found a further increase in the trend toward

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concentration of controls which disturbed Brandeis and Wilson three decades ago.

A vast accumulation of data on the extent and character of current monopolistic controls in American industry was spread on the public record in the hearings of the Congressional Temporary National Economic Committee. While there has been some criticism of the T.N.E.C. reports as running more to "quantitative statistics" than to "qualitative analysis,"³ the documents do serve to establish beyond dispute the fact of growing concentration of control.

The National Resources Planning Board has compiled charts illustrating the interlocking of ownership controls in leading business corporations in America.⁴ These charts present in graphic summary the extraordinary degree of concentration of what may be called the "nonmarket controls" in our economy.

Let us look first of all at the processes by which ownership control reaches from one corporate unit to another.⁵

Four methods may be identified. First, there is the familiar device of interlocking directorates. Of the 250 largest American corporations (50 financial, 200 industrial) 151, with three-fourths of the combined assets, were interlocked with at least three other companies in the group. In 1935 only 25 of these 250 corporations had no director in common with at least one other company on the list.

The second method is similar—extensive intercorporate stock holdings.

The third procedure involves mutual interests resulting from identical legal, accounting, and financial concerns serving a large group of corporations. Of these agencies the financial concerns providing short-term credit are most influential with respect to policy.

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Finally, the banks, insurance companies, and other financial corporations which hold one-fourth of all industrial bonds exercise controls over policy, made effective as funding and refunding agreements are worked out.

Study of this pyramiding of "nonmarket controls" forces one to agree with Walton Hamilton⁶ that the pattern of competition no longer typifies our economic system.

Recognizing that the older concepts of "pure" competition and "absolute" monopoly are not realistic terms under modern conditions, economists have given much attention recently to discussions of "monopolistic competition." We need not delve into economic theory to point out that the very term "monopolistic competition" implies the decline of "free" competition and that the new "norm" is somewhere between competition and complete monopoly.

The Wilsonian program of restoring competition by outlawing forms of combination and monopoly has been ineffective in the main. Doubtless there are areas, such as Hamilton and Thurman Arnold⁷ identify, where competition can be effectively restored and maintained. Indeed it may be plausibly argued that the failure to give Wilsonian regulations (such as antitrust legislation) a sympathetic trial during the decade of the 1920's and part of the thirties means that they deserve further testing before being discarded as ineffective.

It is noteworthy, however, that with the exception of Brandeis and some of his sincere disciples the recent defenders of Wilsonian liberalism in the form of antimonopoly regulations are the very industrial and financial leaders who vigorously opposed its earlier appearance. One wonders whether the urgent suggestion of plans to "restore competition" as alternatives to increased government controls represents a change of heart or merely a change of tactics.

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The great significance for us of the concentration in the control of the economic system into a few hands lies in its resultant effect in producing a disproportionate and socially inefficient distribution of the nation's purchasing power. Two important facts should be noted at this point; namely, that savings are larger when there is great inequality in the distribution of income and that savings come largely from business profits.

These conditions are illustrated in the material gathered by the Temporary National Economic Committee in its investigation of concentration of economic power.⁸

Reverting to the data shown in Chart V in Chapter I, we may recall that 59 per cent of our families (those earning less than \$1250 in 1936) spent more than their incomes, while the 2.3 per cent of the families earning over \$5000 were responsible for 79 per cent of the savings. Families with incomes between \$5000 and \$10,000 saved approximately 30 per cent, whereas families earning over \$20,000 saved 50 per cent of their incomes. This latter group, although numbering only .3 per cent of the families, accounted for almost 40 per cent of all individual savings.

In 1939 individual savings totaled \$5,900,000,000, but it has been estimated that if all families had been receiving \$1500 incomes the savings would only have been some \$1,800,000,000.⁹

Having seen that most individual savings come from the upper income groups, the next question is—what are the sources of the large incomes?

The wealthiest 1 per cent of the population gets some 13 per cent of the total income and we find that 49 per cent of their income is from property and 51 per cent from "personal services."¹⁰ This contrasts with figures of 17 per cent from

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property and 83 per cent from personal services for all persons combined. Moreover, 60 per cent of the property incomes of this wealthy 1 per cent of the people came in the form of dividends (profits). It is doubtless only fair to describe part of the large salaries and fees for "personal services" which are received by the rich as at least partly "profit."

Beyond individual savings a sizable share of total savings comes directly from business profits in the form of corporate investments. From 1919-1928 Simon Kuznets estimates this proportion at 19 per cent of all savings.¹¹ The figure was 26 per cent in 1929. On the other hand, in 1937, when the community saved \$6,400,000,000, business "dissaved" \$1,000,000,000, reducing the net savings by that amount.

What does this all add up to? It means that progressive concentration of economic control into fewer hands has created great inequalities in income—with two unfortunate results.

First, those in positions of economic control secure large incomes pyramided from profits, salaries, fees, and "considerations" of various kinds and they save and invest a very large proportion of these incomes. Were it not for progressive income taxation, the disparity of incomes and the "oversaving" in periods of prosperity would be greater.

Secondly, the restrictions on lower incomes limit the purchasing power needed to support our mass-production industries in full employment.

This process of concentration of control has been accompanied by and in fact may have contributed to greater efficiency in the productive machine. The causal relationships are involved and extremely difficult to trace, but there is doubtless more than mere coincidence in the parallelism between the efficiency of the automobile or the electrical goods indus-

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tries and the large size of the producing units with their extensive control of the market.

There is nothing to show that for many lines of industrial activity large-scale operation and combination are not more efficient than competition among many small enterprises. Consequently there is no social gain, in such cases, in attempting to force a return to an inefficient stage of extensive competition. As a nation we have accepted this conclusion, consciously or unconsciously, and have begun to seek other answers to our problems through increasing social control, rather than trying to return to "free market" conditions by breaking up efficient producing mechanisms.

The new reform liberalism of the Roosevelt administration has broken sharply with the Wilsonian tradition on matters of internal economic policy, while paralleling and extending the foreign policy of that foresighted international statesman.

We have slowly come to recognize that the control of the economic system is not centered, to the degree that it once was, in the "laws of market supply and demand," but rather in a balancing of the influences and controls exercised over market conditions by various groups who occupy strategic positions in economic and social institutions. Business, finance, organized labor, farm groups, and the consumer are each struggling to exercise pressures to improve their position in the market and to increase their share of the national income.

In the process the more effective controls have been exercised to date by industrial and financial groups, with the result that the market advantages have been skewed toward those interests—with a resulting disproportionate share of the national income going to the few in those groups, at the expense of the rest.

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As the masses of the people, representing labor, farmer, and consumer interests, felt the economic disadvantages resulting from the impact of these industrial and financial controls on the market, they reacted in two ways.

The first step was to organize counterpressures within their own economic groups, chiefly labor and farmers, in an effort to secure "nonmarket" controls of price and market which would offset the existing concentration of control in financial and business leadership.

To some extent these organization efforts were successful. The history of both labor unions and farm organizations reveals the greater effectiveness of "collective bargaining" and "co-operative control of market supplies" as compared with individual effort.

The fact remains, however, that the combination of factors (capital to invest, plant and equipment, managerial supervision, marketing facilities, etc.) within the control of the industrial and financial group was more significant economically than the most complete controls which labor unions might exercise over the labor supply or farm organizations over the supply of agricultural products. The market scales were still weighted in favor of the few who controlled the industrial system, and the disparity in purchasing power between the groups continued to grow. Here, then, was the picture of our economy at the beginning of the New Deal; tremendous productive efficiency, evidenced by an unequaled increase in plant capacity and per capita efficiency during the 1920's; at the same time continued concentration in the controls exercised over the economic system by industrial and financial leadership, with a resultant concentration of income returns in the higher brackets.

This maldistribution of income in turn had the dual effect

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of limiting market demand for basic goods on the part of the masses of the people (food, housing, clothing, and comforts of living) and stimulating market demand for the "frills" desired by the upper income groups, including extensive distributive services and luxury goods. Some overinvestment in plant capacity also resulted relative to existing market demand for goods.

The relatively high cost and inefficiency of the distributive services demanded and absorbed an unduly high proportion of the national income. That distributive services were relatively inefficient is clearly demonstrated in a recent analysis by Stewart and Dewhurst for the Twentieth Century Fund.¹² This situation would not be so bad if these additional costs of service refinements were limited to the upper income groups, although the large proportion of the total income going to the "middle and upper" groups makes the disproportionate ratio of their expenditures for these services a serious matter.

However, modern selling, advertising, and credit methods have reached down to the lower income groups as well, and absorbed a sizeable fraction of their already inadequate incomes. A high price paid for convenience, variety, credit, and exchange privileges is poor economy for a family whose income is scarcely adequate for the basic goods necessary to a decent living standard. They are forced to spend hard-won income to save their "time and effort," which actually has a low market value!

The next step taken by the groups who felt disadvantaged by the way the system worked out was to seek to use government controls to correct the economic inequalities they could not adjust by direct pressures on the market.

Facing this situation, the New Deal administration—with

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the backing of the masses of the people whose economic situation had suffered, notably the labor and farm groups—undertook to try to correct the economic inequalities by government action.

It is, of course, not possible or profitable to attempt here to evaluate all the multiple phases of the New Deal program. Some aspects have been discussed in preceding chapters and other parts of the program will be considered in succeeding chapters.

However, as an introduction to the discussion of steps which we believe should be taken in the future to reduce unemployment and promote full use of productive capacity, it may be useful to summarize the writer's personal reactions to certain of the New Deal achievements in fields relating to the problem of unemployment. No account is taken here of war-time developments.

A good start has been made in building up farm incomes at the lower levels and in stabilizing agricultural production through soil conservation and crop diversification programs. However, the principle of restriction of agricultural production as a means of supporting prices is not fundamentally sound and can scarcely be justified even as a temporary corrective. Ways must be found to improve farm income while encouraging needed production of foodstuffs and other agricultural products, perhaps through developing additional industrial uses. The food-stamp plan for disposing of "surplus" agricultural products is an experiment in the right direction.

Important steps have been taken in strengthening labor's economic position through the Labor Relations Act, social security, and the Wage and Hour Act. The Labor Relations Act needs some adjustment to recognize labor's responsibilities but is basically sound in principle and aids in improving

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the bargaining strength of labor. Social security (subject to the improvements suggested in Chapter X) provides needed economic protection for the low income groups, but, as we shall see later, the principle of the Wage and Hour Act offers a more hopeful and less costly method for correcting inequalities in purchasing power.

Good programs have started looking toward the provision of economic necessities which the profit system has not made available to the masses—low-cost housing, conservation of natural resources, and essential public works. These can well be greatly extended.

Fortunately the beginnings of centralized planning of government's share in economic life are developing, following several years of necessarily hastily devised and therefore frequently conflicting reform measures. Such planning must increase in scope and effectiveness and with it can come an improvement in administrative effectiveness.

Too much energy has been spent in trying to straighten out conflicting programs and combating "agency-mindedness," a disease characteristic of even the highest-minded of government officials when policy is not clearly planned and enunciated.

Though somewhat weak on planning and administrative management and getting involved in too many detailed and irritating regulations, nevertheless the New Deal has made substantial progress in balancing bargaining powers, shifting the controls from private concentration to government, and building up the lower incomes.

Much more needs to be done to bring about an effective distribution of purchasing power and promote full use of productive capacity. In succeeding chapters an effort will be made to suggest certain directions which future policy might follow.

CHAPTER XIII

CO-OPERATIVE READJUSTMENT

EVEN the best-planned and administered programs for relieving the burdens of recurring periods of unemployment will not eliminate the problem. Reforms of this type are necessary and many important ones have been undertaken during recent years.

So long, however, as we continue to accumulate a vast reserve of unutilized productive capacity while at the same time a large proportion of the population is undersupplied with the basic materials for a good standard of living, we shall have unemployment and economic unrest.

Where do we go from here? Do we have to face an economic revolution and a new form of economic society or can the necessary readjustments be made within the framework of the present system?

In the writer's opinion the essential modifications can be made within the present structure—provided the structure is liberally construed to mean the present arrangement of private capitalism subjected to rather close government controls and regulation.

Perhaps one can state it this way—if a person considers that the New Deal program has produced such radical changes in our economic arrangements that we are currently operating under a different system than in the 1920's, then the additional readjustments necessary will constitute another "new economic order."

If, on the other hand, one views the New Deal reforms as

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but an acceleration of a general trend of adjustment toward increasing government control of our economic system which has gone on for half a century (as does the writer), then the further changes may properly be regarded as readjustments within the basic structure.

Probably it is less important to know whether the future historian will regard certain changes as revolutionary and ushering in a new order than it is to see that the adjustments meet the needs of a democratic society and preserve the useful aspects of the preceding arrangements.

The advantage in emphasizing the evolutionary character of certain changes lies in avoiding the antagonistic and "closed-mind" attitude in evaluating past performance which so frequently leads the revolutionary reformer to discard the lessons of experience and throw out the good with the bad.

There are encouraging signs that industrial leadership is realizing that the economic future requires a new type of partnership among business, labor, and government and that business must assume its share of responsibility for future planning.

Thus the president of the United States Chamber of Commerce, Mr. Eric B. Johnston, in a recent Baltimore speech which was given wide publicity in the syndicated column of Mr. Raymond Clapper,¹ made the following significant comments:

Ours may be the tragic privilege of living in the greatest military crisis since Napoleon; the greatest economic crisis since Adam Smith; the greatest social crisis since the fall of the Roman Empire. But if ours is the tragic privilege, it is also the magnificent opportunity—the opportunity to mould and form and direct this society, which will lead to greater happiness, greater enjoyment of life—a society which can lead to permanent peace.

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After the war we will have the largest plant capacity in history; we will have a larger source of raw materials both natural and synthetic, than we ever had; we will have the largest number of skilled mechanics and technicians ever available to any nation; we will have the largest backlog of accumulated demands for all sorts of commodities; the people will have accumulated savings with which to satisfy this backlog of deferred demands.

To use this vast store of machinepower and manpower, we must have a new order of co-operation between government, management, labor and agriculture. A new perception by management of the problems of government will be necessary and a new understanding by government of the problems of management. We're going to have statesmen in the true sense of the word in business and in labor and in agriculture and in government.

As Johnston indicates, the day of "belligerent" independence on the part of business leaders is past—there is a present realization that merely "leaving business alone" will not solve the complicated problems of postwar industry.

In order to balance the economic system by securing a more efficient distribution of purchasing power it will be necessary to make readjustments both voluntarily within the limits of private enterprise and by imposing stronger government controls to enforce necessary arrangements which will not be voluntarily made.

First let us consider the possibilities of economic readjustment through voluntary action on the part of private enterprise, which means on the part of management.

We should recognize that ownership and management are not identical and indeed are quite distinct in these days.² It is important to note that progress in productive efficiency is a managerial achievement. It is a coincidence that management and ownership functions were discharged by the same individuals during the earlier years of our economic development in this country. It should be realized that it

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was the managerial contributions of Henry Ford, Harvey Firestone, and Charles M. Schwab that gave them industrial leadership, and not their function as investors of capital.

As our corporate structure has become more complex and impersonal these two functions have separated quite sharply and it is most encouraging to note that managerial competence has not decreased—may indeed have gained in effectiveness with the professionalization of these activities. The names of William Knudsen and Donald Nelson spell productive capacity although they may mean nothing in financial circles or among the families of the “aristocracy of wealth.”

This is important because we have demonstrated within our industrial system that managerial competence is not necessarily linked to private ownership of capital. Thus we may conceivably move more in the direction of co-operative economic effort without great loss of productive efficiency.

Moreover, the question of whether government can operate efficiently in certain economic areas becomes more a matter of whether high-grade managerial capacity can be induced to undergo the irritations of governmental bureaucracy and red tape than any question of inherent superiority in privately owned enterprise.

Managerial talent flourishes most successfully in a free environment with a minimum of restrictions and a maximum of experimental opportunity. Profit taking and the profit motive have little to do with management except that, like any other professional person, the administrator and the industrial technician seek the highest available salaries. In itself, however, this offers no insuperable obstacle to either co-operative or government operation of economic activities.

The notion that the exercise of managerial capacity depends entirely on the item of income compensation is er-

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aneous. Probably the relative size of incomes (as between individuals) has more to do with the matter than the absolute size of the return. Certainly there is no evidence of diminution of managerial effort in the lean income years of a depression period as compared with a prosperous period.

There are at least three directions in which readjustments in income distribution can be made within our economic system—short of government controls—each of which will preserve that independence of managerial action which has been identified as the spark in the engine of industrial progress.

These include certain wage readjustments within the present industrial setup, a program of reducing the “costs of distribution,” and more extensive development of economic co-operatives on a voluntary basis. The objective of all these modifications is to secure full utilization of productive capacity by balancing the distribution of purchasing power so the working classes may secure more of the goods and services essential to their welfare.

One of the first steps is to see whether labor’s share in the incomes produced by business enterprise in the present system can be increased without detrimental effects.

Many economists properly point out that a program of increasing wage rates as such may actually decrease production and increase unemployment by stimulating the substitution of laborsaving devices and by forcing higher unit costs, higher prices, and restricted output.

There are two directions, however, in which wise management might move to increase labor’s total income and purchasing power without necessarily increasing relative labor costs in the productive processes. These are the effort to move toward an adequate guaranteed annual wage and the sub-

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stitution of certain types of "incentive wage systems"—involving minimum guarantee plus premiums for extra performance—for the usual systems of wages paid for time on the job.

The possibilities of guaranteed annual wage arrangements have not been fully or adequately explored either by management or by labor leadership. Much of the controversy between labor and management has centered on the matter of wages and labor costs, but usually the discussion involves wage rates per hour, day, or week. Because of the ever-present risks of irregular work and of unemployment, labor has understandably tried to secure the maximum possible wage rates in order to bolster admittedly low incomes. On the other hand, management struggles in such a situation to keep down labor costs, which comprise a large and increasing ratio of total production costs.

The experience of such firms as Procter & Gamble, Hormel and Company, General Electric, and others³ demonstrates that, in such businesses at least, the dual objectives of stabilized labor unit costs and increased total incomes for the workers can be secured by an annual wage plan in which labor passes up immediate advantages in the way of higher wage rates to secure a guarantee of a substantial annual income which will average more than would otherwise be secured over the same period of time.

The best argument for such a plan is that it has worked out well in the few industries where it has been tried. It is obvious that some industries would have more difficulty than others in adjusting to such a program, but the incentive lies in the fact that it offers a means of stabilizing labor costs while at the same time meeting the workers' major objective of a larger total income. In an industry of expanding pro-

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duction it is likely that an actual decrease in unit labor costs may accompany larger annual wages for the workers. Attainment of the desirable social objective of lower prices is thus made possible.

An even more important step would involve an extension of the use of well-standardized "incentive wage plans." The workers' objective is to secure the largest possible wage income and the business enterprise is interested in securing the lowest possible unit labor costs. While there are exceptions, it is incorrect to assume that management desires to keep down labor's income or that labor desires to eliminate the profits of a business.

It follows that the best type of wage system is one which

1. Assures a reasonable minimum income to the worker
2. Offers labor larger income for greater efficiency
3. Encourages an increase rather than a restriction of production
4. Provides decreasing labor costs with increasing output, thus permitting reductions in the price of the product

The usual arrangement of a straight time wage does not meet these tests satisfactorily. The time wage meets the first requirement of assuring a minimum income on which the worker can depend. Doubtless the reason labor unions have clung to this wage form is because of its definiteness and assurance of a dependable income—in contrast with straight piece rates and some forms of the so-called "incentive wage plans." It is also true that the simplicity of the time payment system may avoid some controversies which occur over interpretations of rates and earnings in other plans. However, straight time wages do not meet the remaining three tests effectively. The worker gets security of income, but he has no prospect of additional income through extra effort or efficiency. From management's viewpoint there is, of course,

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a possibility that decreasing labor costs can be attained by larger output while wages remain fixed, but this is an outside chance.

In general, time wages offer no incentive to increased efficiency and occasionally there is a definite restriction of output—particularly among the most efficient workers, who see no point in exceeding average performance since they receive only the average income return.

Straight piece-rate wages likewise fail to meet the desired qualifications. From the worker's viewpoint piece rates are unsatisfactory because they fail to offer a secure minimum income, particularly for the less efficient. Moreover, some unfortunate experiences with employer efforts to reduce labor costs by reducing piece rates following a general increase in efficiency and output have led labor to suspect piece-rate systems as exploitative devices. Highly efficient workers have usually profited by piece rates.

From management's angle piece rates have the advantage of offering an incentive to increased efficiency and output. Under a straight piece-rate plan, however, labor costs per unit tend to remain constant and the management must offset high wages for the efficient by very low wages for the inefficient.

Some of the newer "incentive wage systems" seem to possess characteristics capable of meeting the tests more effectively.⁴ Not all of them are satisfactory. A few plans, like the Taylor differential piece-rate plan and the Merrick multiple piece-rate plan, might be described as penalty and premium wage systems, since they are designed to eliminate the inefficient by paying them discriminatingly low piece rates and to encourage efficient production by very high piece rates above a certain level of production.

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Some of the better plans, however, such as the Halsey premium plan, the Rowan plan, the Gantt task and bonus plan, the Bedaux point system, and "measured day work," combine the advantages of piece-rate incentives for extra effort with a minimum wage guarantee at a respectably high level. In such plans the gains from extra effort and production on the part of the more efficient half of the workers are shared between management and men. This device permits the payment of a dependable minimum wage guarantee to the workers of average or lower efficiency. At the same time such a plan offers a reducing labor unit cost as output increases.

Under such a system rates can be set at a point yielding maximum returns to labor, while stimulating larger production, lower costs, and lower prices. Not all present rates under these systems are fairly adjusted, of course, but the principle is sound and capable of much further development. Here is a device originating with management which offers real possibilities for a practical readjustment of income shares without government compulsion.

In Chapter XII it was pointed out that the services of distributive enterprises were too costly and were relatively inefficient, absorbing a disproportionate share of the national income.

The Committee on Distribution of the Twentieth Century Fund has analyzed this problem and formulated a program designed to reduce the high costs of distribution.⁵ The Committee emphasizes three present difficulties:

1. The lack of consumer knowledge in matters of quality and price of goods
2. Inefficient operating methods in distributive businesses
3. Unwise competitive restrictions and regulations, including so-called "fair-trade laws"

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Turning to the program for improvement, the first suggestion is for an extensive program of "consumer education," including:

- a) School courses
- b) Government publications for consumers in popular form, covering family budgeting and the essential facts concerning food, textiles, and other basic products
- c) Further use of facilities for testing and appraising goods—both public and private
- d) Group buying projects
- e) Establishment of a "differentiated" pricing system for retail goods

As to operating inefficiencies, the Committee discovered evidence of duplication of sales effort, multiplicity of sales outlets, excessive services, multitudes of brands, and unnecessary advertising. To aid management in cutting these unnecessary costs, the Committee suggests intensive private and public research in the areas of distribution costs, methods, and results—with wide use of the findings both in business and in educational and governmental agencies.

In the matter of competitive restrictions and regulations, the Committee recommends the following four steps:

1. The immediate repeal of all laws which are designed merely to preserve, or to destroy, some special group in the distribution structure, without regard for the general public interest
2. The prompt repeal of all state legislation designed to discriminate against the products of other states and to restrict the free movement of goods between the states
3. The strengthening and more effective administration of existing laws designed to prevent and destroy private monopoly, to eliminate price fixing, and to prevent other monopolistic practices, except under government sanction and supervision
4. Permission by appropriate government agencies, under specific statutory authority, for distributors to agree on the limitation

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of certain costly excesses in competition where the result will be to reduce the cost to the consumer

With a broad attack, such as this Committee recommends, some important progress could be made toward reducing distributive costs, thus increasing the real incomes of the workers. Not all of the steps suggested would work out as planned and progress would be uneven, but there is no simple solution for so involved a relationship.

Another major approach to the problem of securing a better distribution of purchasing power is through the further development of co-operative producing and distributing enterprises. This is included as a form of voluntary readjustment within the framework of our present economic system, although to some people, including a recent committee of the United States Chamber of Commerce,⁶ it represents an alternative economic program. To other observers there appears a doubt—as suggested by Marquis Childs' choice of the title *Sweden, the Middle Way*⁷ to describe the Scandinavian co-operative program.

The co-operative movement has not attained the development in this country that it has in some European countries—such as England and the Scandinavian states—but in recent years it has made substantial progress.

It is unnecessary to rehearse the history of the co-operative movement here;⁸ but we may be reminded that it has reached major proportions in England, where half the population are represented in memberships in one or more societies doing one-third of the retail business and one-fourth of the wholesale volume, as well as an important share of the activity in the fields of insurance, housing, and banking and in certain manufacturing industries.

Sweden, typical of the Scandinavian countries, conducts

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40 per cent of her consumers' goods business (retail and wholesale) through co-operatives. Swedish wholesale co-operatives maintain factories producing electric power, electric lamps, roasted coffee, margarine, cash registers, automobile tires, galoshes, chemicals, shoes, flour, and other food products. Co-operative housing accommodates 15 per cent of the people of Stockholm, and co-operatives are likewise active in banking and insurance fields.

While it is still true that co-operative enterprise accounts for only a very small fraction of the distributive business in this country (1 per cent or 2 per cent) and is still less important in the fields of production, there are signs of an expansion in the movement.

In recent surveys made by the Bureau of Labor Statistics⁹ these interesting developments have been noted among others:

1. Several hundred new consumers' co-operative associations handling groceries or petroleum products were formed in 1940 and 1941.
2. Under the Rural Electrification Administration several hundred co-operative electrical distribution associations have been formed.
3. Co-operative housing associations, promoted by labor groups, have sprung up in several localities.
4. Producers' co-operatives have begun to develop in a number of fields, including the manufacturing of fertilizer and oil production and refining as well as the familiar milk and dairy products associations.

Assuming competent management, the co-operative enterprise owned by consumers seems to offer a useful device for increasing the share of income or purchasing power which reaches the hands of the poorer people.

It is difficult to get at the facts concerning the real effectiveness of co-operative enterprises. Much of the literature in the field is distinctly pro or con, frequently producing more heat than light on the subject.

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The Committee on Distribution of the Twentieth Century Fund studied this question and reached the conclusion that co-operatives should be encouraged for the following reasons:¹⁰

- a) Well-managed co-operatives have reduced the costs of distributing such products as milk, gasoline, and farm supplies.
- b) The existence of co-operatives has a significant influence in reducing prices of private distributors.
- c) Co-operative enterprises serve an important educational purpose in arousing the interest of consumers in the problems of economical buying.

The consumer co-operative business should aid in the effort to build up lower incomes in three ways. In the first and most obvious case, the consumer, being the owner, participates in any "profits" made in the business. While this is no different in principle from other businesses, the practical fact is that low income groups do not accumulate savings and invest in business ownership—whereas they do patronize co-operative stores and similar enterprises and benefit directly from them.

A second gain, which European experience has demonstrated as possible, is the advantage of lowered costs and prices which can result from direct servicing of co-operative retail outlets by co-operatively owned wholesaling and manufacturing units. This is one way of securing the efficiency of large-scale operation and market control without risking monopoly advantages in the hands of a few sellers.

Finally, the fact that co-operatives have strong labor support, together with the educational program stressing common interests, tends to create a favorable environment for providing a sound wage structure with guaranteed annual incomes and wider sharing in earnings. In other words, higher and steadier wage returns may be anticipated.

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Without endorsing the extravagant claims of some of the propagandists for the co-operative movement, it may still be pointed out that a major extension of co-operative enterprise can help balance the distribution of purchasing power and do it on a basis of voluntary adjustment without the necessity of government controls.

CHAPTER XIV

READJUSTMENT THROUGH GOVERNMENT CONTROLS

IF IT were possible to obtain a proper balance in the distribution of purchasing power through the types of voluntary readjustment suggested in the preceding chapter, it would be the most desirable situation. We could avoid the introduction of additional government controls, which are objectionable on three grounds:

1. They necessitate expenditure of public funds to maintain administrative agencies frequently operated with a great deal of red tape and "bureaucracy," which is both irritating and expensive.
2. They substitute "conscious planning" of economic activity, with its human limitations, for the working of supply and demand forces in a "free open market."
3. They introduce an element of restriction of individual initiative, of regimentation and required uniformity, which is harmful to progress and repugnant to a "free people."

Carried to its ultimate possibilities, complete government control in the hands of a party or bureaucratic clique becomes dictatorship of the Nazi-Fascist variety.

While desiring to avoid government controls where possible, because of these considerations, we must make sure that the alternative is not more objectionable. Over a period of several decades we, as a people, have apparently concluded that increasing government controls are the lesser of two evils. The alternative has been increasing concentration of economic controls in the hands of a few, with resultant in-

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justice and failure to utilize our productive capacity and available man power effectively.

J. M. Clark in a recent article¹ makes these pertinent comments on the problem we are considering:

The problems created by lack of reasonably full use of resources (of which the crucial resource for this purpose may provisionally be taken to be manpower) are probably the most serious and threatening problems of an economic origin which are faced by our economic system. Without some reasonably adequate handling of these problems, our social order is seriously threatened. Reasonably adequate handling may operate in two directions, or a combination of them. These are: (1) Increased utilization, ideally up to full use, if this can be measured; and (2) policies directed toward mitigating the incidence of the burden of inadequate utilization on those on whom it falls most heavily, these policies being chosen with due regard to the importance of increased utilization, and to the bad effects, from this standpoint, of restrictive measures protecting the market position of particular groups at the expense of others. While only the first can be regarded as fully satisfactory, a realistic estimate of probabilities is that the second will presumably be necessary for some time to come.

One danger to be avoided is that of choosing a course by elimination: course A will not work, therefore course B must be adopted. Rather, both A and B should be weighed in the same scales, so far as possible; both in the light of past experience and in that of possibilities of modification and improvement. For example, as between action via private business processes and via Government, one attitude is to study private business in the light of past failures, and of the inherent possibilities of "automatic" action by private business, and to conclude that Government must be the reliance, without applying similar analysis to governmental action. On the other hand, a prevalent view among businessmen looks at the past decades of governmental action, and at the inherent tendencies and limitations of governmental action as it sees them, and with about equal logic and reason concludes that freer business action is the only recourse. Others look at both and conclude that neither holds out any hope: neither private business action nor attempts of Government to influence the course of private business. If this conclusion is to be escaped, it must be because (1) the kind of action of

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the part of business which we think of as "automatic" is not the only possible kind: or (2) Government may find more successful policies than it has yet demonstrated; or (3) some combination or collaboration of both may accomplish more than either by itself.

It is difficult to avoid the conclusion that voluntary readjustments made by business alone will be too slow and too limited in scope to secure the necessary balance in our economic system.

It is necessary not only to have government planning of economic objectives but to extend certain types of government controls over economic activity in order to correct inequalities and secure maximum efficiency in working toward those objectives.

This does not mean complete government control and operation of the economic system along dictated and regimented lines; nor does it mean that all existing forms of government regulation and control are desirable and effective.

It has been indicated earlier that only the essential readjustments within the framework of the "present system" are proposed because of the conviction that private initiative and management operating under the freest possible conditions are the most constructive and creative forces in our economy.

Clark states the case well in these words:²

The "present system" here means a system in process of continuous and more or less orderly change, continuing to rely on what we call "private enterprise" for organizing a major (though not unalterable) part of our economic processes. "Private enterprise" refers to a system in which no industry is wholly free from various public measures designed to protect a growing assortment of recognized public interests; but in which there remains sufficient scope for business discretion and decision, and sufficient business incentives for its exercise, to motivate a vigorous voluntary prosecution of productive processes. This it seems important to preserve, within any future for which we should now actively plan. If so, it appears

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incumbent on us to take more conscious thought for the conditions of its preservation than has been necessary during, let us say, the past 70 years during which the present system of public controls has been growing up. This does not require the cessation of all fresh measures to protect public interests.

Bearing in mind the major objective of securing a better distribution of purchasing power and through that device achieving full use of productive capacity, let us consider certain types of government action which are available.

It is both impossible and irrelevant to attempt to assess all of the myriad aspects of government regulation of economic activity which might have some effect on the distribution of the national income.

For our purposes we may consider very briefly four aspects of public policy:

1. Tax programs
2. Government subsidy of low income groups
3. Wage control plans
4. International trade policy

Because of the great significance of international trade policies in the present world situation that subject is treated more fully in the following chapter.

In a stimulating recent book³ A. H. Hansen points out that, despite much talk of the necessity of a progressive tax program which will shift the burden to the higher income groups best able to pay, we have in recent decades actually increased the proportion of "consumption taxes" which fall heavily on the lower income groups.

Even the vast social security scheme—designed to redistribute purchasing power to the low income groups—offsets the benefits paid by securing the funds through a pay roll tax which falls on these same and other low income groups.

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Hansen indicates that two significant trends in tax policy have characterized the period 1900-1940.⁴ First, consumption and pay roll taxes comprise a larger proportion of the total in 1938 (40 per cent) than in prewar 1913 (36 per cent), while property taxes declined from 60.6 per cent of the total in 1913 to 31.9 per cent in 1938. At the same time income, corporation, gift, and inheritance taxes were taking up the slack. It should be noted, however, that while these new taxes accounted for the same proportion of the total in 1930 (27.5 per cent) as in 1938 (27.7 per cent) consumption and pay roll taxes had increased from 24.9 per cent in 1930 to 40.3 per cent in 1938. The property tax ratio declined from 47.6 per cent in 1930 to 31.9 per cent in 1938.

Thus we find the actual proportion of the tax burden which falls on lower incomes increasing in recent years. Despite the effort to develop a progressive tax principle, we find that, taken as a whole, taxes do not increase in percentage of income paid until the \$10,000 level is reached and then they increase slowly—as compared with the British rates, for instance.

Moreover, it is only federal taxes that are at all progressive—the ratio paid in state and local taxes runs 10 per cent or 11 per cent whether the income is \$500 or over \$20,000 a year.

The second trend of significance is the growth of federal and state taxes in comparison with local sources.

Not only has the ratio of local taxes decreased but there has been a great increase in federal and state “grants in aid” to local agencies. These grants are direct, as in public assistance, and indirect, as in the case of relief programs which are federally financed—relieving the local governments of such expenditures.

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During the war, of course, the ratio of federal taxes and expenditures is soaring out of all normal proportions and at the same time tax programs are being devised to draw off purchasing power from lower as well as higher incomes. This latter move is necessary and desirable in a war situation, but the danger lies in possible failure to readjust the tax structure after the war.

If this situation is to be corrected and a tax program developed which will improve the distribution of purchasing power, at least two or three major changes need to be made.

In the first place, it seems clear that a larger proportion of taxes must be collected by the federal government—since state and local tax sources rest too heavily on property and consumption taxes. This is but an accentuation of the present trend, and the impetus given by war needs will doubtless contribute to this shift. A related problem is the one of whether expenditure of the increasing ratio of federal funds should be directly under federal agencies servicing the public needs involved or through an extension of federal-state arrangements, such as grants in aid. The argument seems to favor federal operation in most instances.⁵

A second consideration is the desirability of shifting a larger proportion of the total tax load (particularly federal) to personal and corporate income taxes, profits taxes, estate and gift taxes—and away from consumption taxes (such as sales and other excises, customs), pay roll taxes, and miscellaneous internal revenue items.

The third desirable shift lies in the necessity for more sharply progressive rates in income and profits taxes. As Hansen points out,⁶ the tendency during the 1920's was to reduce income tax rates on the upper brackets; and even in the 1930's the rates were not brought back above the 1918

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level. The great increases in expenditures for social security and for farm and unemployment relief were largely drawn from pay roll, processing, and other consumption taxes.

The tremendous increases in tax requirements occasioned by the war program offer an excellent opportunity to secure certain of these needed changes in the tax structure. Perforce there will be a great shift of the tax ratio to the federal government and a larger reliance on personal and cor-porate income and profits taxes. Moreover, the income tax rates will go up in all brackets, although it now appears that too great a relative increase may be made in the low brackets as compared with middle and upper income levels.

The real opportunity occurs when war expenditures begin to slack off and it eventually becomes possible to reduce the total tax burden from the wartime peak. At such time pay roll taxes should be eliminated, consumption taxes reduced, and the rates on lower brackets in income taxes reduced—while maintaining highly progressive rates in other income brackets and on profits and estate and gift taxes.

A second method by which government can undertake to correct the distribution of purchasing power is by subsidy of the low income groups through social security benefits, farm and unemployment relief programs, provision of low cost housing, and public works employment. Provision of these subsidies is of course dependent on tax revenues and their effectiveness presupposes a tax structure whose burden falls heavily on upper income groups.

Whether we shall provide such government subsidies is no longer an academic debate. During the decade of the 1930's a total of \$27,797,000,000 was spent for such purposes—accounting for the full increase in the public debt, since tax

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revenues covered other government expenditures throughout the period.⁷

It would be preferable if the purchasing power provided to agricultural and industrial workers through the vast unemployment and farm relief schemes could be secured by these persons directly from their participation in industrial and agricultural production. They are merely receiving government income to replace loss of income from the usual source, with no advantages in the way of reduced prices of goods or services purchased. Moreover, there is the cost of collecting the tax revenues and administering the programs to consider. Where voluntary adjustments of the type discussed in Chapter XIII, or governmental wage controls, can result in avoiding the necessity for direct relief, there is a net social gain.

When it comes to social security benefits—such as old-age, survivors', invalidity, and health insurance; unemployment compensation; and workmen's compensation for industrial accident and disease—there is another factor to consider. Aside from the income supplements received, there are additional advantages in the way of lower costs of protection against various risks than can be secured through private insurance expenditures. Moreover, there are other social benefits in the way of public health protection and employment exchange facilities. In other words, social insurance affords better protection at lower costs for the low income groups and might well be used even under a better-balanced system of income distribution, without government subsidy.

Much the same can be said of government provision of low cost housing and of various public work programs resulting in the construction of needed public conveniences, educational and recreational facilities. Aside from the direct

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gains in the shift of purchasing power to low income groups in the work programs there are the gains represented in mass production, plus social planning and management of enterprises which are more costly and less efficiently handled on an individual purchase basis by low income families.

This suggests the necessity for vast government expenditures to provide these various subsidies on a scale large enough to effect an important redistribution of effective purchasing power benefiting the low income groups.

Part of the funds for such purposes should come from taxation of the type outlined above. Part will of necessity come from government borrowing. From the point of view of effective distribution of purchasing power the larger the share which comes from taxation the better. Under government borrowing the well-to-do classes tend to benefit, since they invest savings in government bonds—while the poorer classes are unable to do so.

Nevertheless, government borrowing must and should be used extensively to avoid the necessity of repressive and deflationary taxes—particularly on the lower income brackets. The popular conception that government debt and private personal debt are alike and are equally to be avoided is incorrect.

It is natural for a citizen to think of what is called the “public debt” as something to be avoided or eliminated as soon as possible, as he wisely views his own private debt problem. There are three respects, however, in which the public debt differs from private debt and it is important that the people correct their common misconceptions in this matter.

The first point is that the national income, from which provision must be made to pay interest plus retirement of

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principal on the debt, is a steadily expanding figure—year after year. For a century—up to the first World War—the rate of annual increase in the national income was 4 per cent. With the slower rate of population growth the expansion is not so rapid now; but for the next fifty years Hansen estimates at least a 2 per cent to 2.5 per cent annual increase, resulting in a national income of \$250,000,000,000, to \$300,000,000,000 a year in 1990 on the basis of 1940 prices.⁸

Where a business can anticipate continual long-run expansion of income it will not hesitate to assume large “fixed charges” in the form of bonds or other long-run obligations. Of course, such practices are “sound finance”! Even a private individual who was sure of an average yearly increase in income could safely assume sizeable interest-bearing debts.

The second point is that in some degree the increasing of the “public debt” may itself increase national income or, just as importantly, may prevent a sharp decline in national income. Thus government borrowings to subsidize agriculture and provide purchasing power for the working masses may prevent a sharp slump in production and national income, or even promote industrial expansion and increasing employment.

To use a business parallel again—there is a difference between “marketing securities” to permit a “profitable investment” and borrowing to meet losses or unexpected costs.

Finally, we frequently forget that the government acquires valuable capital assets to show for a sizeable part of its “public debt.” When a corporation issues bonds in order to acquire new properties, we list the new “assets” as an offset to the “capital liabilities.” When an individual assumes

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a house mortgage, he balances the property value against the obligation.

But when Uncle Sam issues bonds to build a highway or an electric power project, when the state builds a university chemistry laboratory or the city builds a school or acquires a park, the bonds are all "net debt"—apparently there are no assets!

We have fallen into the error of treating all government obligations as current debt, with no offsetting asset account. On this basis every railroad, every public utility, and nearly all large bond-issuing corporations are financially insolvent!

We do not want to switch over to an easy optimism with respect to public debt. But to be realistic in our thinking and planning we should recognize these differences between public debt and an individual's private debt. Perhaps a better way to put it is that we should recognize the similarities between the problems of public debt and of corporate debt, distinguishing between "current" and "capital" obligations.

A third type of government action which will increase the share of purchasing power going to the low income groups is represented in minimum wage controls, such as the Fair Labor Standards Act.

It has been indicated above that it would be preferable for the unemployed workers now getting unemployment and agricultural relief to secure their incomes directly from participation in production if possible—thus saving the costs and irritations of tax collection and administration of these government relief programs, not to mention the morale factor.

Moreover, despite certain social advantages in public works and social insurance programs, there is an obvious value in minimizing the need for such activities by readjustments per-

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mitting more people to make their own provisions out of more adequate incomes. Since we cannot anticipate sufficient voluntary redistribution of income shares to be effective, it is important to analyze the effect of direct government controls designed to increase the workers' share in the results of production.

There is much to be said for the principle of placing a "floor under wages and a ceiling over hours." It is true that such a plan will favorably affect only the workers who are employed, but the same limitation applies to social insurance schemes. Moreover, if such a policy succeeds in shifting purchasing power to lower income groups it should increase production of basic goods and lead to fuller employment.

There are two major advantages in minimum wage controls, as contrasted with tax-supported relief, social security, and public works programs. In the first place, such controls permit more flexibility and freedom of action on the part of management.

Under such plans business management is faced with a specific and clear-cut restriction or limitation as to minimum wages payable. Beyond that point management has freedom of action to adjust to and meet the situation in the most efficient and suitable manner. It is not faced with continuing and unpredictable tax burdens, reporting requirements, hiring and layoff restrictions, and the like.

If the minimums are high enough, upper and middle incomes are automatically curtailed by virtue of the fact that the earnings will not permit large profit returns and will force a scaling down of middle and upper salary brackets. Account should also be taken of the fact that considerable slack in other costs can be taken up, and a high wage cost

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provides a driving incentive for managerial efficiency. As has been indicated earlier, higher total wage returns to labor need not require higher hourly or piece wage rates. The emphasis should be shifted toward establishing minimum annual wage incomes and away from hourly wage rate minimums.

In this way the workers' interest and that of society in full employment can be served. At the same time, the door is left open for management to gain by lowered costs of production and larger volume—including the possibility of lower unit labor costs.

A second advantage of minimum wage controls lies in lower costs of administration as compared with relief, public works, and social insurance plans. While the administration of such laws requires a policing or inspectional staff of some size, the costs of such an agency are trivial compared with the machinery necessary to collect taxes and administer the payment of public relief or public works pay rolls and social security benefits. In the one case we are supervising a program of distributing income within industry itself—in accordance with a set of rules. In the other situation we are redistributing income by taxing it away and then paying it out in benefits and public pay rolls.

Here, then, is a proposed program for securing the necessary redistribution of purchasing power which cannot be achieved in sufficient volume without government controls.

Establish the "rules of the game" in clear-cut and definite form, requiring industry to pay minimum annual wages high enough to force a substantial redistribution of the income shares in favor of the lower-paid working groups. Having set such requirements, allow management the maximum freedom of action in adjusting to this schedule. In this manner we

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should provide an incentive to efficiency, lower costs, and larger volume.

Since the above program will reach only the fully employed workers and we must anticipate recurring loads of unemployed and partially unemployed persons, a substantial program of government subsidies of such low income groups should be provided.

To the maximum degree possible these subsidies should consist of the social insurances (old-age and survivors', invalidity, health, accident, unemployment) and public work programs providing needed educational, recreational, conservation, housing, and other socially desirable facilities and services. There will, of course, be a necessary residual of direct subsidies in the form of relief and public assistance for persons not covered in any of these programs.

In periods of business depression, such as the decade of the 1930's and the postwar readjustment which we must shortly face, a large share of the government funds necessary for these subsidies should come from borrowing. To the degree that these subsidies support the national income and aid in turning its trend upward, the borrowing is economically sound.

In the long run the bulk of the funds must come from taxation, and here it is essential that the tax structure itself be streamlined to contribute to the gradual readjustment or redistribution of purchasing power which we believe to be essential to the achievement of full use of our expanding productive capacity.

CHAPTER XV

THE EXPANSION OF WORLD TRADE

HAROLD LASKI, the English liberal, has expressed the conviction that private competitive capitalism must go, since the conflict between the concentrated economic controls of capitalist economy and political controls by the majority in a democracy is irreconcilable.¹

The implication is that if we are to secure anything approaching world stability we must have a world political organization set up along democratic lines to guard the economic welfare of the masses of the people.

In contemplating such a scheme A. H. Hansen makes the observation² that the League of Nations, imperfect as it was, could probably have succeeded if it had been possible for the nations of the world to maintain economic prosperity. He believes that the economic foundations are probably more important than the political arrangements in building world peace.

Hansen points out that internal economic conditions are of vital importance in determining the possibilities of international trade and the first requisite for the United States in looking toward development of trade is stabilization of our own economic arrangements. Among these internal conditions first emphasis should be given to policies designed to prevent depressions and secure full employment of labor and other resources.

A different approach to this problem is offered by J. B. Condliffe in his study of *The Reconstruction of World Trade*.³

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Condcliffe sees a fundamental conflict between political and economic forces—particularly in international relations. He points out that state regulation reaches more and more into internal economic life to try to redirect it in the interests of those who wield political power.

Increasingly, however, economic activity reaches beyond national boundaries and we find sharp conflict between “nationalism” and “industrialism.” Thus we have powerful sovereign states (Germany, Italy, Japan) arrayed against the creation of a world economic order based essentially on private enterprise.

Although Laski, Hansen, and Condcliffe would differ in their approach to the problem of future economic stability, all three recognize the necessity of world-wide economic and political organization if we are to make progress toward full utilization of productive capacity.

Perhaps the first question to ask ourselves is why international trade is essential to the full employment of man power and resources in a country such as the United States.

Is it not true that only a small proportion of our total trade is international in character? Might we not, therefore, do better to build up a self-sufficient economy and avoid the complications and entanglements, including wars, which so persistently accompany international economic competition for trade?

Condcliffe answers these common queries effectively:⁴

The value of international trade cannot be measured, any more than the value of territorial division of labor within a national community, by the aggregate value of the goods which cross local boundaries. It brings within the purchasing power of consumers in every country the specialized products of every region. The whole world is given access to the fruits of tropical agriculture and northern sea fisheries, of large scale agricultural and pastoral produc-

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tion in the thinly populated countries of the New World and the elaborated manufactures of highly industrialized regions in the Old. By its efficient organization the luxuries of the rich have become the conventional necessities of the poor and there are still great possibilities of raising standards of living by its improvement. This is particularly true in regard to the new "protective" foodstuffs and the new mechanical inventions towards which demand turns as living standards rise. In the process of organized interchange, also, price-competition keeps down the consumer's costs and prevents the application of labor and capital to relatively wasteful and unprofitable uses, while spurring on the production of those commodities in which each region has economic advantages from its location and climate, the efficiency of its labor, or merely the ability of its organizers. There is, therefore, good ground for the conclusion to which M. van Zeeland came in the course of his investigations, that, although the quantitative importance of the international market may have been exaggerated in certain cases, "its relative importance appears today to be as great as ever, and its marginal influence is real and powerful."

If we concede that international trade has a significance far beyond its apparent size as a ratio of total trade, it becomes clear that full utilization of productive resources demands a maximization of international trade possibilities.

Unfortunately, recent world events have sharply reduced the volume of international trade and restricted the areas in which exchange is possible.

Ever since the first World War nations have been busy building up trade barriers, trying desperately to reach the goal of national self-sufficiency. The emphasis on economic nationalism grew out of the increased reliance on government action to solve economic difficulties arising within the postwar nations. Particularly as governments have endeavored to raise the living standards of the lower income groups in their population, there has been an incentive to protect these standards against the competition of low wages in other

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nations. Thus the drive for social security for the masses who were the victims of unemployment tends indirectly to create artificial barriers to the free movement of international trade which is vital to the fullest use of resources and productive capacity.

The difficulties represented a combination of economic maladjustments following the World War and unwise government policies. Restrictions of trade became cumulative and in turn promoted economic nationalism and "isolationism."

Beginning with higher tariffs on commodity imports (such as the Fordney-McCumber tariff in the United States in 1922), the barriers extended to the movements of population (including immigration quota restrictions in the Americas and Australasia) and of capital.

Like small independent banks forced to rely on their own reserves and resources to meet any demands which occurred, individual national economies—deprived of the greater stability possible under an international economic system—cracked up under the pressure of unusual conditions. The departure of Britain from the gold standard in 1931 is an outstanding illustration of the cumulative disruption of international trade as a result of the emphasis on national economic self-sufficiency.

The postwar effort of the leading nations to become industrially self-sufficient disturbed the normal flow of trade. The United States during the 1920's pumped a vast flow of credit into Europe—funds that were used to build up industries which in the final analysis were to compete with one another and with the United States. There was thus a "false" expansion of international trade which contained within itself the germs of self-destruction.

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Great Britain, which had been the financial center and clearinghouse of the prewar world, was handicapped by high costs of production (due to social security, etc.) and by the disorganization of her former export trade. World markets were narrowing; world production was increasing. With the collapse of 1929, credit expansion ceased and, despite desperate efforts to control the situation through monetary adjustments, the system of international payments broke down. England went off the gold standard in 1931, followed sooner or later by all the other nations. Capital movements practically ceased. In turn the efforts to protect the domestic markets led to further tariff and trade restrictions.

With the outbreak of the present World War the condition of world trade went from bad to worse. From the point of view of the United States, trade with continental Europe has practically stopped except for recent war shipments to Russia. Trade with Great Britain has increased but has changed drastically in character, and the effort to expand our trade relations with Central and South America seems to involve more headaches than solutions.

At a time when the experience of recent years has demonstrated the importance of developing world-wide economic interdependence in the interest of stability and of full use of resources, we are thrown back on our heels by a cataclysm that seems to destroy all basis for international trade.

Unless we are willing to adjust to a much lower standard of living we cannot accept a future based on economic isolationism, even if it were possible to maintain such isolation—an undertaking which seems highly questionable. Certainly the realization of the productive possibilities of modern economy is dependent on full international co-operation in both the political and the economic spheres.

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However, we must face realities and consider the practical steps which can be taken under existing and prospective conditions leading to an eventual re-establishment of world-wide trade relations.

Two rather easy assumptions are frequently made by those who feel that foreign trade is not too important a part of our economy. The first is that since imports and exports are a small fraction of our total trade we should be able to adjust our domestic production and markets to absorb this activity without serious loss. The second assumption is that we can develop a form of Pan-American economic solidarity which will replace former trade relations with Europe and the Far East.

The first assumption overlooks the changes which have taken place in trade relationships in recent years and the resultant "key" character of our imports and exports. A. R. Upgren⁵ in a pertinent recent article discusses the great changes in the character of our imports and exports in the last thirty to thirty-five years. He comments as follows:

The striking changes in the imports of the United States in the past generation are the great increases in imports of rubber, sugar, coffee, paper, vegetable oils, silk, tin, wood pulp, and wool. Of these imports the annual value-increase in the case of rubber was over \$200,000,000, and for each of the other commodities the annual import value-increase very roughly averaged about \$100,000,000. The listed commodities included the most important individual raw material imports of the United States. For the present problem it is highly significant to observe that, of the nine items, only two—coffee and paper—are secured preponderantly from countries of the Western Hemisphere and but one—wood pulp—is so secured from Europe. United States imports of the remaining six commodities are secured primarily from regions located in southeastern Asia, including Australasia.

In the same period of thirty-five years an even more striking

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change has taken place in the export position of the United States. This can be illustrated by the data for seven export commodities.

In the first five years of the present century United States total exports of only three commodities—cotton, meat, and wheat—averaged \$648,000,000 annually and constituted no less than 45 per cent of total exports. In contrast, these commodities in 1937 accounted for only 14 per cent of total exports. In 1937 the new and most important exports of the United States were machinery, petroleum, automobiles, and iron and steel. These four commodities alone now account for no less than 45 per cent of total United States exports in contrast to only 13 per cent at the turn of the century. In other words, in relative shares the new great exports have exactly succeeded the earlier great roles of Kings Cotton, Wheat, and Meat.

The great significance of our international trade thus is found in these two considerations:

1. Imports are chiefly of strategically important raw materials which we do not produce.
2. Exports are significant ratios of some of our leading mass-production industries and have an important bearing on prices in the domestic market as well as on the use of productive capacity in those industries.

Just how much we should cripple our economy and reduce our standard of living by eliminating this foreign trade is difficult to estimate, but it is clear that the unfavorable effect would be much greater than is suggested by the comparison of the volume of such trade with the domestic market situation.

The whole problem is being dramatically illustrated for us in the wartime shortage of rubber. Even after Japanese conquest of the East Indies and Malaya had cut off our major supplies of rubber, the public was extremely slow to realize the necessary readjustments which would have to be made in our economy.

The general attitude (at least up to June, 1942) has been that we'll find a way to get rubber from Latin America or

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Africa and we'll make synthetic rubber soon in large amounts so we can forget the Far East!

But here are the facts as set forth by the Office of Emergency Management on May 13, 1942:⁶

America's motorized millions in jalopies, trucks, delivery wagons, and limousines are riding themselves off the roads at an average rate of $3\frac{1}{2}$ per cent per month. That's the rate at which the rubber is wearing from their tires and when that rubber is gone, there will be no more for a long time.

We have been using up rubber at the rate of 766,000 tons a year. Last year we imported 1,025,563 tons, of which large amounts were placed in what are called "stockpile" against emergency—against exactly that emergency which is upon us now.

From Malaya came 550,935 long tons or 54 per cent of our rubber importation. The Japs have Malaya.

From the Netherland East Indies, 367,373 long tons or 36 per cent of our importation. The Japs have the Netherland East Indies.

From Ceylon, 59,804 tons or 6 per cent of our annual importation. The Japs dominate the sea lanes before Ceylon.

From other East Indian sources—from Burma and Thai and the Melanesian Islands, 20,511 long tons or approximately 2 per cent of our annual importation. The Japs have Thai, the Japs have overrun Burma, the Japs crawl like a horrid plague of insects through the islands of Melanesia.

We got, indeed, 10,419 long tons, or about 1 per cent of our annual importation, from Africa, and another 1 per cent—10,753 long tons—from Latin America, the ancient home of the Hevea Brasiliensis.

All but 2 per cent of our rubber, then, came from these parts of the world now overrun by the soldiers and sailors of Hirohito.

We used this rubber in more than 50,000 products and many of these products contributed greatly to what has been called the American standard of living—that standard which now is threatened everywhere.

Most of this rubber, though, went into tires. The U.S.A. has one-third of all the improved roadways in all of the world. Over these roads, our 30,000,000 pleasure cars and our four million trucks and buses drove an average of 500,000,000,000 miles each year.

This is the place to talk about the things that stubborn "happy

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motorists" talk about these days—about synthetic rubber, about the extraordinary things that can be done with Guayule, about the various forms of magic which are—in the wishful thinking of so many—at hand to solve the rubber shortage practically over night.

In 1941, when we were importing such prodigious amounts of rubber from the Far East, our production of synthetic totaled about 15,000 tons, only a part of which was general purpose rubber suitable for tires. This year our production of synthetic rubber may reach as much as 28,000 tons. The plans—and remember they are plans—call for production at an estimated rate of 200,000 tons a year of general purpose rubber by December of 1942; and by the end of 1943, if facilities not yet in existence are then producing at capacity, we shall be getting Buna S synthetic at a rate of 700,000 tons a year in addition to 100,000 tons of Butyl synthetic and Neoprene. At *the rate of* only, mind you. Actual production of Buna S during the calendar year 1943 certainly cannot be expected to be much more than 350,000 tons.

And so, synthetic rubber is not going to keep our automobiles on the road. Long after existing stocks of tires on the wheels of American motorcars have been worn out, we'll still need all our production of synthetic and more to keep our military machines moving forward.

If we are lucky, we may get as much as 41,000 tons of rubber from Latin America this year, most of it from wild rubber trees of the inland jungles. We may get another 18,000 tons from Africa. And this, in relation to our need for rubber, is as the eraser on the end of a lead pencil to a big eight-ply casing for a ten-ton truck.

Turning to the question of whether we can secure the essential raw materials and dispose of our important exports through developing Pan-American trade, we cannot find reason for too much optimism.

The difficulties with respect to exports are four:⁷ first, the Western Hemisphere absorbs a smaller proportion of its own product than does Europe. In 1937 Western Hemisphere exports totaled \$6,790,000,000, of which \$2,656,000,000 or 39 per cent was absorbed within the same area. On the other hand, European countries used 64 per cent of the total

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European exports. Thus the Western Hemisphere would have a sharper readjustment to make.

Second, American exports are of a few limited items (such as wheat, meat, cotton, and petroleum) in contrast with the diversified European products exported.

Third, the great export surpluses of the Western Hemisphere, such as wheat, cotton, and meat, are produced in "one-industry" areas, while European countries produce a variety of items. Thus the Americas are more dependent on the export market.

Finally, Western Hemisphere surpluses are largely of necessities, which have an "inelastic demand" as compared with the "elastic demand" of finished products of Europe. American nations cannot hope to consume their surpluses of wheat, meat, foodstuffs, tobacco, cotton, and petroleum, while Europe can and does readjust more easily to absorb metal and machine products and other manufactured European exports.

Turning to the import problem, it may be pointed out that in 1937 total Western Hemisphere imports were \$5,601,000,000, of which \$2,385,000,000 came from internal sources (43 per cent). In Europe 54 per cent of the imports came from European countries.

Upgren has an effective device for summarizing this problem:⁸

In order to approach the development of a list of what may be called *net exports* and *net imports* of raw materials, for the Western Hemisphere, let us assume that the countries of the hemisphere maximize their purchases from each other. By this assumption is meant either (1) that any country of the hemisphere which has an import of any commodity of which some other country in the hemisphere has an export would purchase its total net import volume from such other countries of the hemisphere if such export

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exceeded the import volume or (2) such a country would purchase the total export volume of the exporting countries if such export volume is smaller than the import need of the first country. On the basis of this assumption, the realization of all potentially complementary trade, the countries of the Western Hemisphere could increase the share of their imports secured from within the hemisphere to 65 per cent, in comparison with the present actual intra-area import share of 43 per cent. In the case of exports such maximization of intra-area trade could increase the proportion of the hemisphere's total exports which are absorbed within the hemisphere to 54 per cent from 39 per cent, the present share.

Net imports of the hemisphere as they have now been defined represent what is in effect the *net draft* of the Western Hemisphere upon the rest of the world after first utilizing fully its own hemispheric supplies. Such leading net imports are given below:

<i>Net Raw Material Imports of the Western Hemisphere</i>	<i>Value in 1937 in millions of dollars</i>
Rubber	270
Silk and rayon	142
Vegetable oils and fats	134
Jute and other vegetable fibers	103
Tin	78
Sugar	57
Furs	57
Pulp and pulpwood	40
Tea	32
Cacao beans	22
Coal and coke	22
Wool	13
Iron ore	9
	<hr/>
Total	979

It is interesting to observe that two important non-raw material imports include:

Cotton and wool textiles and clothing	224
Earthenware and china, glass and glassware ...	34
All other net imports	633
	<hr/>
Grand total	1,870

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After a review of the sources available for these thirteen net raw material imports of the Western Hemisphere, Upgren points out that iron ore, wool, coal and coke, can be secured in this hemisphere in adequate supplies. Moreover, additional quantities of or substitutes for cacao beans, tea, pulp and pulpwood, sugar, and furs can be developed.

Of the five remaining items perhaps tin could be secured in Bolivia and the United States, and we can substitute rayon and other synthetic fibers for silk—leaving three acute shortages, jute, rubber, and vegetable oils and fats. It will be noted that these three items account for over half of the needed net raw material imports for the hemisphere. The prospect of a workable solution for these shortages is remote.

We have already summarized the current rubber shortage problem. One additional point may be noted. Rubber production, even though feasible in Brazil, takes a tremendous labor supply, which is not available in that area.

Indeed, the major reason rubber production expanded in the Far East was the convenient and extensive labor supply, and *not* climate. We *can* produce natural rubber in tropical America and we can produce synthetic rubber in the United States, but it will be expensive and in the long run an unwise use of labor and other resources as compared with securing natural rubber from the Far East.

Similarly for jute and vegetable oils and fats. Each of these products requires a tremendous amount of labor in relation to the value of the product. The trade advantages accruing to India, China, and the East Indies in these products are tied to cheap labor more than to climate. Again, we can devote part of our agricultural and industrial facilities to producing substitutes for these items—but only at the cost of curtailing more productive activities.

Unfortunately, when we turn to the net export problem

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of the Western Hemisphere, the problem is even more acute. Again, Upgren's summary is to the point:

<i>Net Raw Material Exports of the Western Hemisphere</i>	<i>Value in 1937 in millions of dollars</i>
Grains, including flour	458
Cotton	427
Petroleum	426
Copper	223
Non-ferrous metals other than copper and tin..	121
Cattle, swine, meats	173
Tobacco	136
Timber and lumber	86
Coffee	72
Iron and steel	71
Oil seeds	48
Vegetables, fruits and nuts	33
Hides and leather	24
Fertilizers	13
	<hr/>
Total	2,311

In addition to the foregoing raw material commodities important net export surpluses of the hemisphere include:

Machinery and vehicles	518
Rubber manufactures	36
Miscellaneous metal products	32
	<hr/>
Grand total	2,897

A survey of the foregoing list of net exports of the Western Hemisphere at once reveals the immensity of the export problem of the hemisphere. Taken as a whole the hemisphere, after a maximum absorption of its own raw material production, has no less than \$2,300,000,000 of export surpluses of the fourteen listed commodities and there is in addition the very great export by the industrialized areas of machinery and vehicles in the amount of \$518,000,000. Thus for reasonable prosperity the export surpluses of the hemisphere must total almost \$3,000,000,000.⁹

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It is thus apparent that the idea of Pan-American economic solidarity is not an answer to our need for foreign trade relations.

In some respects, indeed, we increase our headaches by substituting Pan-American isolationism for United States economic independence. While tropical America (chiefly the countries adjoining the Caribbean) complements our economy, Canada, Argentina, Chile, and some other South American countries are essentially competitive in matters of foreign trade relations.

It is clear that we can gain from further development of trade relations with tropical America—particularly in the expansion of the production of essential raw materials. Not only would this reduce our reliance on remote sources of raw materials, but in so far as it leads to industrial development in Central America it would balance our economy—even to the point of reducing seasonality (see Chapter II). The prospective lack of adequate man power in these tropical countries, however, argues against a complete solution of the problem in this direction.

Proposals for freer trade among the American nations are desirable—but cannot contribute much, since many basic raw material imports are already on the free list (coffee, bananas, tin, sisal, cacao beans, nitrates, newsprint, etc.). Suggestions have been made involving quota systems to be agreed upon among the nations of the Western Hemisphere. Some balancing of the total economy would result, but it would be another case of reduced living standards to achieve economic isolation for the hemisphere.

Are there other available solutions to the international trade problem—in the light of present world conditions? At least two present possibilities exist and should be developed.

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The first is a program involving restoration and maintenance of trade relationships with the East Indies, Australasia, and southeastern Asia as sources of essential raw materials. The second is maintenance of continued trade relations with Great Britain as a major market for Western Hemisphere exports. In both of these cases our economic interests are identical with our political and military interests.

The bulk of the strategic raw materials needed for maintaining full-scale industrial production in the United States can be secured from the Western Hemisphere and the Far East areas, including China, India, and the East Indies. Moreover, with these countries needing American military supplies now and many manufactured products later because of the disruption of their trade relations with Europe and Japan, the interchange is on a sound basis.

Fortunately it happens that a major share of the European market essential for the export surpluses of the Americas centers in Great Britain. Surprising as it seems, Britain has absorbed almost as much of these strategic export surpluses as all of continental Europe.¹⁰

The British economy faces outward from the continent of Europe to an amazing degree and is based on an intensive development of trade relations with the rest of the Empire, the Western Hemisphere, and the Far East.

It is thus possible, even now, to secure an important support for our industrial system through international trade based on the maximization of inter-American trade, bolstered by the British market for American exports and the raw material reserves of the British Commonwealth of Nations and the Far East. Thus our military and political interests in making common cause with these "democracies" are sup-

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ported by strong economic reasons for united action. Beyond these limits the totalitarian powers have cut off all present trade relationships.

Looking ahead, the prospect of full use of resources, which is so dependent on freedom of international trade, turns on the outcome of the war. From the economic viewpoint alone, defeat of Hitler offers the best possibility of restoring and expanding world trade—under the essential control of a world-wide form of political organization on democratic lines.

A complete German victory over the rest of the world would indeed permit the possibility of an organized world trade. Such a solution is completely unacceptable, however, not only for political and ideological reasons, but because the Nazi economy, however efficient, does not promote the welfare of the average individual—the final test of any economic system.

In the event of any sort of stalemate result which would leave the Nazis in control of Europe and adjacent territories (not including Britain) we should face the prospect of two great rival economies. Each of them could develop a form of self-sufficiency—but only at some sacrifice of the potential standard of living possible under a world-wide economic order.

Moreover, the rival systems could scarcely avoid future conflict in the economic, political, and military spheres. “You can’t do business with Hitler” is a present reality which forecasts the inevitable future clash in such a divided world.

Should Britain fall (a remote contingency), the United States faces a form of slow economic strangulation—unless her vast resources give her the industrial strength to turn the tide and gradually re-establish control of the necessary

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trade outposts in the East, the British Empire, and elsewhere. Such an effort would drain the economic resources of the United States into war activities to a point involving great reduction in living standards.

The interlacing of economic and political controls and activities in the modern world suggests that the only long-run prospect for economic stability in an interdependent world lies in the creation of a workable world-wide economic and political organization committed to democratic principles of control and the promotion of the welfare of the average individual. While we strive for such a long-run solution, we must hold fast to important existing economic relationships—with Britain, the Far East, and the Americas.

CHAPTER XVI

THE EXTENSION OF ECONOMIC DEMOCRACY

THE suggestions which have been made in this book, designed to secure increased employment and full use of productive capacity, necessitate some important changes in our economic behavior.

Laissez-faire competitive economics—which took a beating first from private monopoly, then from the New Deal “planners”—seems destined to lose further ground in the face of the necessity for organizing and planning industrial activity to serve the interests of the majority of the people.

As we have tried to point out, there are several ways in which industrial management can take action to improve the working efficiency of private industry and to produce a better-balanced distribution of purchasing power. To the degree that private industrial management is willing and able to make these adjustments there are important gains to be secured, including self-preservation for industry and the maintenance of individual initiative as the driving force in economic progress.

The tremendous production requirements of the war effort have necessitated a great centralization of planning and control in the hands of the federal government. Viewing this drastic upheaval in economic arrangements, some people have become very pessimistic concerning our economic future.

Certain businessmen who identify industrial progress with complete freedom of business enterprise from government controls have reached a new low in their pessimism as they

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realize that some increase in government planning and control is inevitable. Probably this group is now in the minority although still influential.

Another and perhaps more dangerous attitude is represented in the viewpoint that drastic and indeed revolutionary changes are taking place and there is nothing we can do to change or modify either the direction or the character of these changes no matter how desirable or undesirable they may be. This rather cynical or fatalistic attitude seems to assume that we can do little about the "wave of the future," even though Hitler and his cohorts are riding that wave.

For example, in his recent book *The Managerial Revolution*, Mr. James Burnham¹ offers a provocative, if dogmatic, picture of our economic future. Both here and in Europe, says Mr. Burnham, we are witnessing a shift from private capitalism in which the "ownership class" controlled the economy to a new type of organization in which the managers will rule.

In Europe the managers are at present represented by the party bosses who have taken over control of government and industry—Stalin and the party commissariat, Hitler and his Nazi chieftains, and, in lesser supporting roles, Mussolini, Franco, Laval, and their satellites.

In the United States, Burnham sees the managerial revolution in two developments. These are the New Deal on the one side, with its emphasis on administrative rather than on legislative control, and on the other hand management of industry being divorced from the ownership class (the capitalists), with the managers in the ascendancy. Moreover, he sees in the various war control agencies, such as the War Production Board, the merger of industrial and governmental

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management which forecasts the future pattern of "managerial control."

One can agree that management control and economic planning are moving into positions of greater significance both in economic and in political life, without accepting the conclusion that democracy is out—or that the managers will constitute the controlling economic class.

In an effort to be "objective" and "realistic," Burnham tosses aside as irrelevant the ideologies, the hopes, beliefs, and attitudes of men, and concentrates on certain similarities in economic changes which are taking place throughout the world. The "ideologies" or attitudes of the masses of the people he believes are manufactured for them by the controlling groups—to suit the latter's objectives. Thus all of the business about individual liberty and the freedom of enterprise was devised by capitalists to condition the masses to that form of economic control.

Present talk about security, sacrifice, social obligation, etc., is promoted by the managers who are shoving the capitalists away from the dinner table, but have no intention of sharing anything but the crumbs with the numerous "servants in the house."

On this basis not only do we find American industrial management and New Deal agency bureaucrats in the same back yard (much to their consternation), but they are both playing the same game as Hitler and Stalin. That these groups may be so blinded to their real objectives as to fight each other in both economic and military warfare seems both stupid and irrelevant to Mr. Burnham.

However, to dismiss the attitudes, beliefs, and convictions of men as inconsequential and entirely controlled by the "ruling classes" is in itself unrealistic.

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If we go back two centuries to the period of stress which culminated in the emergence of private capitalism in the economic field, we are forced to recognize a parallel change in the social and political field of equal or greater significance. The political and social turmoil which resulted in the acceptance of the rights of self-government and individual liberty found expression in the French Revolution, the American Revolution, and the initiation of constitutional government in the United States of America.

So long as these two movements—private capitalism and political democracy—ran along in parallel lines without conflicting objectives, proposals for changing the economic system fell on deaf ears. When maturing capitalism introduced corporate controls as a means of restricting free competition and securing certain advantages of monopoly, points of conflict began to develop between the economic order and the institutions of political democracy. As monopoly controls clashed with individual liberties and resulted in concentration of control over income and wealth, eventually threatening control of political and social institutions, the resistance of the people who believed in political and social democracy increased.

Were Mr. Burnham's conclusion correct—that democratic ideals were interest-serving slogans devised by capitalist owners to secure acquiescence of the masses—one might expect resistance to decrease as the drug took effect!

Some of the forms of protest against the concentration of economic controls under capitalism consisted of proposals to substitute some variety of Marxian socialism for private capitalism. It may be conceded that the conclusion that we will not now move to Marxian socialism is probably a correct prediction.

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Two points should be noted in this connection, however. The first is that the workers' proposals to substitute some form of socialism for private capitalism do not reflect a dissatisfaction with political and social democracy. The dissatisfaction is with a form of economic organization which fails to permit realization of democratic objectives.

The second point is that the present world conflict between the Axis powers on the one hand and Britain, the United States, China, and Russia on the other doesn't make sense in terms of a "managerial revolution." It does make sense in terms of an ideological struggle between authoritarian and democratic objectives. Russia's change of front typifies her mixed status on these ideological matters.

That the future economic arrangements will involve larger managerial influence and more social and economic planning is clear, but that the present struggle is meaningless and will have no bearing on the future form of economic and political life is fundamentally wrong. The choice lies between a managerial revolution and a managerial "evolution" or, better, between the imposition of totalitarian controls over all institutions, economic, political, and social, and a gradual adjustment toward a planned economy, part government-operated, part under private management, with the consent and control of a democratic electorate.

As our capitalistic economy developed it has tended to create certain frictions as a result of expansion and has shown a tendency unduly to concentrate control of purchasing power, with a resultant failure to serve the needs of society effectively. Nevertheless, private capitalism has been dynamic—it has provided the incentive for growth and expansion of productive capacity to an unprecedented degree.

But its very growth is dependent on continued investment

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in new industries and new economic outlets. This process of continued investment is the root of much of the instability in our system, since it proceeds in spurts—with very large savings and investment in prosperous periods, followed by depressions in which business savings and investment are either small or actually negative. Three conditions have made possible the rapidly expanding investment in our capitalistic economy—first, the expansion of territory and the discovery of new resources; second, population growth; and, third, technical inventions and improvement.²

A. H. Hansen indicates that the first two of these essential conditions are disappearing and we must face a maturing or stabilizing economy. It is possible that Hansen, like Keynes, has somewhat overstated the limitations in these two areas.

J. B. Condliffe has properly stressed the point that throughout the nineteenth century the opportunities for capital investment and economic expansion were greater on the “intensive” than on the “extensive” margins of settlement.³ In other words, progress came more from intensive development of the United States than from simultaneous penetration into other sections of North America, South America, Africa, etc., where vast regions are still underpopulated but closed to settlement for “political” reasons. “Capitalism is thwarted not by geography but by politics.”⁴

A rapid population growth in Asia is a potential factor of greatest significance which cannot be ignored, even if we should assume a stationary population in Europe and America. Thus, even though we concede some restriction in the first two factors, there are still great possibilities even in these areas. The *laissez-faire* expansion of the nineteenth century has been made possible only by the superb planning

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job done by the builders of the British Empire and the framers of the American Constitution.

It is the tragedy of the twentieth century that the political organization and ambitions of continental Europe—coinciding with the fateful isolationism of the United States—have completely failed to facilitate economic adjustments. A new bold framework may go far to encourage further “private investment” in productive capacity. This view is supported by the wealth of historical evidence adduced by Arnold Toynbee in his analysis of the causes of breakdown in earlier civilizations.⁵ The “closed frontier” has always been more a political and spiritual concept than a geographic reality.

All of this does not mean that progress must cease. On the contrary there is every reason to stimulate technical improvements which can offer great opportunity for industrial development. Nevertheless, with inevitable limitations in territorial and population expansion the rate of growth is bound to be slower and everyone’s attention appropriately turns to matters of security and equitable participation in the benefits of production.

In a more mature and less rapidly expanding economy, a larger proportion of the national income should be spent for consumers’ goods and services and a smaller proportion is needed for investment in productive capacity. The various steps here suggested to secure a better balance in the distribution of purchasing power would thus conform with the realities of our present situation.

It may also be noted that while the shift to a more mature economy slows up the rate of expansion it should eliminate or reduce some of the most serious frictions—notably those connected with business cycles. The business cycle is a phenomenon connected with the rapid expansion of capitalist

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investment in productive capacity, and we may anticipate that stabilization of investment coupled with current expenditure of the greater part of our purchasing power will minimize the swings of the cycle.

It is pertinent to ask what the respective roles of government and private industry will be in such a maturing economic society. In the first place, it is obvious that there will be an increase in government participation in economic life.

On the consuming side—that is, in the matter of distribution of purchasing power—government is increasingly stepping to correct initial inequities. Such government participation takes the form of tax-supported subsidies to low income groups (unemployment, old-age and farm relief, and the various aspects of social security), provision of public work programs, and publicly supported facilities for health, education, and recreation. Government control of wage standards is another instance. Further expansion in this phase of government activity seems likely and desirable.

Moreover, on the side of production larger government participation appears inevitable. In recent years private capital has been extensively unemployed, as well as man power. In a rapidly expanding economy supported by new and developing resources, increasing population, and technological improvements, the returns on private investment are sufficient to attract and utilize savings profitably.

As the economy matures and investment returns decline, it is doubtful if certain types of needed capital investment will be able to offer returns attractive to private savers. In these instances government may have to take over the capital investment function in order to serve the needs of the people. In such cases management, which is even now so largely

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divorced from ownership or investment, would serve public rather than privately owned corporations or agencies.

It seems probable that the necessity for government investment (and therefore probably of government operation) will develop first in the fields of transportation, communication, and public utilities connected with the use of important natural resources.

In the transportation field we already have government investment and management in the highways and waterways, with a high degree of government regulation of air, rail, and water traffic. In communications we find the postal service operated by the government and other agencies, such as radio, telephone, and telegraph, closely regulated. In the general public utility field T.V.A. points the way toward the type of public corporation which may increasingly become responsible for the management of our essential natural resources.

T.V.A. also points the way toward a system of co-operative contractual arrangements between the sections of the economy operated under public and under private control and management.

Public investment does not necessarily imply public operation. Or, to be more specific, it does not require that investment and operation be handled by the same agency. Investment requires highly centralized control, while operation may be carried on in a decentralized way. Under "private finance" capitalism, investment was controlled in Lombard Street and Wall Street. Under partial "state" capitalism, it will be controlled to some extent in Washington. The local operation in St. Louis will be the same, whether the loan is handled by Morgan or Jesse Jones. The airplane plant in Russia is "public"; Curtiss-Wright is operated under

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“private” management. Both have nearly identical cost accounting schemes! The real issue is not whether we call the plant “public” or “private”—a matter of historical tradition—but the degree of decentralized responsibility and initiative.

This “dual economy” of “public” investment and “private” operation will be greatly encouraged by new inventions which are likely to be less capital-absorbing than the technological improvements of the nineteenth century. In the field of transportation, public highways and airways with “privately” operated buses and air lines offer a good illustration. In manufacturing, new chemical processes may lead to similar institutional arrangements. Thus technological advance can be relied upon to offer new opportunities to decentralized initiative or “private enterprise.”

We believe it is essential to the maintenance of balance in our economic arrangements that the bulk of our producing economy be operated under private management. In the fields of manufacturing, distribution, finance, and services there are still great possibilities of technical advancement, as Charles F. Kettering so eloquently proclaims.⁶ These opportunities should be sufficiently remunerative to attract private investment. Moreover, we are convinced that, even with a narrower range of financial return available to management, the incentives to progress and efficiency remain potent. The professionalizing of management and its gradual divorce from ownership have proceeded far enough to establish this point. Moreover, in this same development lies the hope for attracting capable management into public enterprise.

The existence of private industrial management opportunity will serve as an important corrective to the bureaucratic tendencies inherent in government operation.

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There remains, however, the vitally important problem of maintaining and extending democratic ideals and procedures both in government and in private business—so that the managers do not simply take over and fulfill the dire “wave of the future” prophecies of many present-day pessimists.

First of all, let us recognize that the prospect of increasing managerial and planning responsibility both in government and in private industry is not incompatible with democracy. On the contrary, as control of our economic society passes from the private investor-owners to responsible management, we take a step toward democratic objectives. Privilege gives way to merit and capacity, and surely society gains thereby.

The strongest characteristic of private capitalistic economy lay in the opportunity offered to anyone of capacity to develop an idea and to manage the industry realizing that idea. It is when control of industrial opportunity passes to ownership interests whose only function is capital investment that democracy is eliminated. The democratic opportunity to move into the managerial class, either in government or in business, remains.

There is nothing in democracy which runs counter to the idea of management by persons chosen on the basis of comparative capacity, so long as all participants in the group retain a voice in choosing the managers or representatives and hold the power of removal or repudiation. It is not enough, however, to say that the changing economic arrangements do not necessarily conflict with democracy. Certain aspects of the greater centralization of planning and control which characterize the current trend in industry and government make it easy for nondemocratic groups to seize and

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maintain control of society unless democratic procedures and ideals are firmly established.

How are we to assure the extension of democratic principles in private industry and in government? In both of these areas the realistic approach, we believe, is to build slowly on existing procedures and institutional arrangements which have proven to be democratic in operation. Just as we cannot protect ourselves from the risks which accompany social change by blindly and desperately clinging to the old order, so also it is immature to discard existing institutions completely in the hope of substituting a ready-made utopia.

What do we have in the way of democratic machinery in our present industrial system? It has already been suggested that the gradual displacement of ownership control of industry and commerce by management control has democratic implications. A professional management has closer ties to the workers in industry than does an ownership class increasingly based on inherited wealth. Technical competence may be inherited in some degree, but it springs from backgrounds in all walks of life and cannot become a "vested interest" controlled by the "sixty families."

Moreover, it is not too much to hope that wise management, as it faces the larger future problems of economic and industrial planning, will be capable of adjusting to a new balance of purchasing power which will be fairer and socially more efficient. In its early fumbling efforts to develop a basis of dealing with the workers in industry, management was guilty of perpetrating some patronizing frauds under the name of industrial democracy.

The first personnel programs in industry and indeed many of the so-called employee relations policies of the 1920's were in this class. They either were insincere efforts to sell

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the workers "welfare activities" in place of better wages and a voice in industry or were well-meaning programs based on management's belief that what the worker really wanted was a chance to work up to the managerial class. In either case the programs missed fire and failed to satisfy the workers' desires.

During the past decade, despite the squawking, management has become much more realistic about the share which labor must have both in the management of industry and in the financial returns therefrom. The two factors responsible for this change in attitude are, of course, the growing strength of organized labor as a force within industry and the vast range of protective labor legislation under the New Deal. The legislation has strengthened labor's position as a participant in industry, and in addition has directly redistributed purchasing power for the benefit of the workers in the low income brackets.

While resisting this general trend, industrial management has been much more realistic and adaptable to the new arrangements than have the capitalist owners. The apoplectic hatred of the New Deal is concentrated largely among the owners of invested capital—although it is echoed by the industrial managers, who face with reluctance the readjustments many of them know are inevitable.

During recent years the growth of labor organization has been providing another democratic instrumentality in industry. Doubtless to many people (not limited to capitalists!) the idea that labor unions are democratic agencies is a ghastly joke! It must be admitted that the ways of John L. Lewis with the United Mine Workers, or the activities of many of the leaders of the A. F. of L. Building Trades Unions, are not the perfect prototypes of democratic be-

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havior! Nor do the records of the Willie Bioffs and the George E. Brownes offer much encouragement to believers in democracy.

Nevertheless, in the organized labor movement the workers in industry have been developing a piece of machinery designed to serve the democratic purpose of effective representation of the largest group of participants in industry. Moreover, with few exceptions, the unions are fundamentally democratic in that control rests with the members and not with the officers. American unionism is also based on the premise that management plays a part in industry and is entitled to a share in returns.

Slowly, as unionism has gained strength, it has evolved forms of organization and methods of procedure which will better serve the needs of industrial democracy. The industrial union, which seems destined to displace the narrower craft organization in much of our economy, is better suited to full representation of all participating workers in an industry. Moreover, it is freer from restrictive and devisive practices such as jurisdictional disputes and limitations on membership.

Other hopeful signs may be found in the substitution of union-management contractual methods for indiscriminate strike and direct pressure devices. There is also a steady growth in the use of peaceful negotiative methods, including mediation and voluntary arbitration.

At the present juncture labor needs to accept a larger degree of responsibility to accompany its increasing share of industrial control and its improving economic position. It is natural that a disadvantaged group should reach for as large a share of power and income as possible when conditions (including legislation) make it feasible. But failure on the

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part of labor leadership to match up labor's objectives with the requirements of general social welfare will necessitate social controls to curb such leadership. As a specific illustration—these controls may soon involve the right to strike on war production, as well as limitation on profits from the same activity.

A hopeful recent development is the rapid growth of joint management-labor production committees under the stimulus of the War Production Board. As of June 23, 1942,⁷ there were nine hundred such joint committees operating in war plants.

In contrast with the earlier joint shop-committee plans developed in American industry, these new joint committees are based on union representation of the workers to parallel management representatives. This principle of union worker representation is similar to the successful Whitley Council Plan in Britain.⁸

There is evidence that through this medium of co-operative management-worker action the war-production program is being effectively speeded up.⁹ The intangible factors of morale which are a by-product of a sense of participation are provided with an effective channel for expression and recognition in this plan. It is a common experience that when men of divergent viewpoints sit across the table from one another day after day they learn to work together and to respect the contributions which each has to offer.

This is particularly true when, as in the war-production drive, both sides can concentrate on a common objective instead of merely trying to adjust differences in viewpoint.

There is thus good reason to hope that this wartime experience will have a favorable carry-over into the postwar period.

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Looking ahead, it seems logical to anticipate that managerial control of industrial enterprise coupled with a maturing labor union movement, organized along industrial lines, may provide the basis for future industrial democracy. The evolution will be slow, but it will be forced by the pressure of increasing social controls exercised through government. Some of this pressure will take the form of direct legislative controls, such as the wage-hour law, the labor relations acts, expanded social security provisions, and heavily progressive taxation. Certain indirect controls may be exercised through "yardstick competition" of government corporations with private business.

There seems reason to believe that both management and labor in a government-owned enterprise (such as T.V.A.) will move faster toward a democratic operating procedure, since the income differentials are smaller and the management is not tied closely to a profit-making objective. The threat of substituting government investment and operation in new fields of activity will serve as an incentive to democratic procedure in private industry.

The alternative of organizing industry along "consumers' and producers' co-operative" lines may likewise exercise some influence on private business. As the income differentials decrease under the pressure of progressive taxation, wage minimums, and price adjustments, the appeal of the co-operative movement may increase.

The real pressure, however, will come from government.

But how can we be sure that the increasingly powerful government will not escape democratic controls and let the Hitler brand of bureaucratic managers take over society? That there is a real risk here is evident in what has happened in Europe. There is, of course, a decided trend toward ad-

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ministrative domination of government activities. With the growing multiplicity of government agencies and functions it has become impossible for the legislative bodies to do more than establish general policy—leaving the formulation of detailed regulations as well as the execution of programs to administrative agencies.

This tendency has paralleled a similar development in industry where the Boards of Directors, representing ownership control, have of necessity restricted themselves to the formulation of general policy—leaving much administrative discretion to management. In many instances, the Boards of Directors become mere agencies for the ratification or rejection of policies proposed by management.

The founders of this republic recognized the dangers in concentration of power and authority in the hands of a few people. Accordingly they provided a series of checks and balances and a division of powers and functions between the legislative, the executive, and the judiciary. In the new situation which we face in government, safety lies partly in the same principle of division of powers and functions.

We cannot have the necessary streamlining of our government and retain the degree of detailed legislative control which was once possible. It is necessary to provide for considerable administrative discretion and for organized planning of economic and social programs. At the same time the legislative bodies, which are most directly responsible to the people, must retain the power of approval and veto on all matters of general policy.

Some protection of the public interest lies in the probability that the planning and the administrative functions will be discharged by different groups of individuals. We have already indicated a belief that social and economic planning

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must play a larger part in government. This means that a central planning agency is necessary, deriving its fundamental authority from public recognition of its scientific and professional competence, whatever the appointing source. Perhaps the proper balance would be best assured by having appointments to the planning agency made by the executive—with the agency developing policy for legislative review and approval. The courts should continue to exercise a stabilizing and corrective influence.

In the final analysis the preservation of democracy in an increasingly powerful government structure depends on an awakened public interest and a willingness on the part of the citizenship to accept public responsibility.

Democracy is at its best in organized community life in this nation. At the local level competent citizens willingly serve on school boards, library committees, planning agencies, educational forums, community drives, and welfare activities. When it comes to elective office we have a bad tradition and likewise in appointments to many of the positions in the administrative divisions.

It seems likely that in appointments to planning agencies we may anticipate a high average of technical competence. In the administrative agencies the extension of the merit system principle is encouraging, but a more important factor is likely to be the increasing prestige and economic significance of the responsibilities discharged by the government agencies. The ambitious and capable young people who are trying to choose a career these days are adding public administration to business and professional opportunities in the range of choice.

We need to take some steps to make legislative responsibilities more attractive to capable representatives of the public

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interest. Elimination of some of the fusty and obstructive procedures characterizing these bodies would help. Antiquated rules and cumbersome machinery seem to serve the interests of the demagogue better than those of the conscientious legislator. No doubt more adequate compensation would help in the states and such reforms as the one-house legislature may be in order.

Basically, however, the answer lies in the willingness of some of the same leaders who accept local civic responsibility to accept the assignment of representing the people in state and national legislatures. Public esteem of the legislatures will rise with the caliber of the representatives. There is nothing inherently second-rate about public office!

The structure of industrial and political democracy cannot stand on the basis of an isolated national economy. Just as the prospect of developing industrial democracy depends in a large degree on social controls exercised through a democratically operated government, so the maintenance of American democratic institutions depends, we believe, on the existence of a world democratic order.

In Chapter XV the reasons for believing that a nationally isolated economy would be a contracting economy with declining standards of living were indicated. In such a situation the economic frictions would be great and the threat of unemployment and lowered standards of living would undermine democracy. People will give up democracy under the pressure of starvation and economic failure; they will not characteristically abandon democracy in search of larger gain in an expanding economy. Hitler can browbeat unemployed and economically desperate peoples; he has not succeeded in bribing independent peoples who have even a remote chance of a democratic alternative.

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The alternative of some halfway station in international organization, such as Pan-Americanism or an English-speaking union, is unacceptable for much the same reason. The world cannot endure half democratic and half totalitarian—conflict would be inevitable and on a cataclysmic scale.

It is beyond the province of this book to outline the form of such a world democratic organization. We may, however, note some of the weaknesses in the first international organization experiment—the League of Nations. In the first place, it was not all-inclusive—the absence of the United States was most serious. Moreover, the League lacked authority: there was no means of enforcing agreements. Another difficulty lay in the effort to separate political and economic questions, and deal only with the political—a highly unrealistic procedure. Finally, the League structure rested on a union of governments—not a union of peoples—and tended therefore to emphasize points of conflict and rights of national sovereignty.

Any successful world organization must be universal—even in the beginning all of the powerful and significant peoples must be included. To those who argue that differences in culture, race, and economic organization will lead to conflict within the organization, the answer is—of course the risk of serious struggles cannot be avoided. However, internal conflict is less serious than conflict between rival powers and authority can be vested in the organization to deal with such situations. This means an international police force.

Certainly one essential requirement is that the world organization have power to control international trade in all its aspects. The welfare of all of the peoples of the earth depends on freedom of trade and on the planned development of economic resources.

Finally, it is our belief that such a world order must be

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based on the principle of world citizenship—a federal union if you choose—in which the individual simultaneously holds citizenship in his nation and in the world state. Clarence Streit may be in error in many aspects of his proposed *Union Now*,¹⁰ particularly when he refers merely to union with Britain—but he is right, we believe, in stressing the essential principle of common citizenship and direct democratic participation if a world organization is to work.

As we look ahead to the problems and opportunities of the postwar world, we are slowly beginning to realize that steps must be taken to assure economic stability if we hope to reach and maintain political and social stability.

A new democratic world order cannot be built on an unbalanced economic foundation. Fortunately for the democracies, many of our political leaders are aware of these implications. It is heartening to hear Milo Perkins, the Executive Director of the Board of Economic Welfare,¹¹ describe the problem in these terms:

We are engaged in a struggle that transcends the present war. This is a long, long fight to make a mass production economy work. The battle started when machines became important in the lives of men. It should be over within the generation following this conflict.

The battle will be won when we have built up mass consumption to a point where markets can absorb the output of our mass production industries running at top speed.

Complete victory will not be won until there is a full and increasing use of the world's resources to lift living standards from one end of this planet to the other. The twentieth century is a time set apart for the winning of this total triumph.

Vice-President Wallace in his history-making speech to the Free World Association struck a responsive chord in American hearts with these words:¹²

The people in their millennial and revolutionary march toward

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manifesting here on earth the dignity that is in every human soul, hold as their credo the four freedoms enunciated by President Roosevelt in his message to Congress on January 6, 1941. These four freedoms are the very core of the revolution for which the United Nations have taken their stand.

We who live in the United States may think there is nothing very revolutionary about freedom of religion, freedom of expression and freedom from the fear of secret police. But when we begin to think about the significance of freedom from want for the average man, then we know that the revolution of the last one hundred and fifty years has not been completed. Either here in the United States or in any other nation in the world.

We know that this revolution cannot stop until freedom from want has actually been attained.

This book has attempted to outline a number of steps which may be taken to reduce unemployment and to increase the effective utilization of productive capacity in our economic system. Some of them involve rather drastic modifications in methods of distributing purchasing power within the industrial mechanism. Others envision an increase in government planning and control of our economy.

Yet we believe that these changes are entirely possible of achievement within the democratic pattern. Indeed it is our profound conviction that unless such steps are taken to eliminate the specter of unemployment and want the people of the earth will abandon democratic institutions in a desperate search for economic security.

The whole vigorous history of our American democracy gives assurance that we will succeed in modifying and improving our industrial system through an extension of the same kinds of democratic procedures and controls which have high-lighted our political evolution.

NOTES

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⁵ Maurice Leven, Harold G. Moulton, and Clark Warburton, *America's Capacity to Consume*, Washington, The Brookings Institution, 1934, pp. 100-112.

⁶ *Ibid.*, pp. 126-128.

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¹ E. S. Smith, *Reducing Seasonal Unemployment*, New York, McGraw-Hill Book Company, 1931, p. 15.

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